

Report to the Chairman, Subcommittee
on Military Readiness, Committee on
National Security, House of
Representatives

EX-1485
PORTION OF
GOODS

Increased Carrier
Transportation Loss and
Damage Warranted



DTIC
S

DISPATCHED
Approved for Release
Date: 11/11/01

19950515 089

DTIC QUALITY INSPECTED 6



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-259309

May 8, 1995

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on National Security
House of Representatives

Dear Mr. Chairman:

This report responds to a request by the former Subcommittee Chairman that we review changes proposed by the Military Traffic Management Command regarding carrier liability for loss and damage on DOD household goods shipments.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; the Senate Committee on Armed Services; the House Committee on National Security; the House and Senate Committees on Appropriations; the Director, Office of Management and Budget; and to other interested parties.

This report was prepared under the direction of Mark E. Gebicke, Director, Military Operations and Capabilities Issues, who may be reached at (202)512-5140 if you or your staff have any questions. GAO staff members who made major contributions to this report are listed in appendix.

Sincerely yours,

Henry L. Hinton, Jr.
Assistant Comptroller General

Accession For	
NTIS CRA&I	<input checked="checked" type="checkbox"/>
DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By	
Distribution /	
Availability Codes	
Dist	Avail and/or Special
A-1	

Executive Summary

Purpose

The Department of Defense (DOD) spends more than \$700 million each year to move military servicemembers' and DOD civilian employees' household goods. DOD shares liability with carriers for loss and damage affecting these shipments. During mid-1987, DOD, through the Military Traffic Management Command (MTMC), increased carrier liability for domestic household goods shipments, a change that the carrier industry opposed. In March 1993, MTMC proposed that carrier liability be similarly increased for international household goods shipments, a change also objected to by carriers.

At the request of the former Chairman, Subcommittee on Readiness, House Committee on Armed Services, GAO evaluated DOD household goods shipment programs to determine (1) the impact of the 1987 increase in carrier liability on domestic shipments and (2) what level and type of carrier liability DOD should adopt for international shipments.

Background

DOD settles servicemember claims for household goods shipment loss or damage directly with the servicemember. Servicemembers generally receive the full depreciated value or repair cost whichever is less, for all approved claims up to a maximum of \$40,000 per shipment for both domestic and international shipments. DOD then attempts recovery from the carrier up to the extent of the carrier's liability.

From 1967 to early 1987, carriers handling military household goods movements were liable for damage or loss at the rate of \$0.60 per pound per article for both domestic and international shipments. For example, if a carrier lost or damaged a 70-pound television worth \$400, it was liable for the depreciated value or for repairs—up to a maximum of \$42 (70 pounds times \$0.60).

Under the valuation system MTMC adopted in 1987 for domestic shipments, the carrier is liable for the full depreciated value of damaged or lost articles up to a maximum amount per shipment; the maximum amount is no more than the shipment weight multiplied by \$1.25 per pound. For example, if a shipment weighs 4,000 pounds, the carrier is liable for a maximum of \$5,000 (4,000 pounds times \$1.25). In the case of the \$400 television, the carrier would be liable for the full depreciated value (\$400) or for the cost of repairs, whichever is less, and for all other lost or damaged items in the shipment until the total amount of loss and damage reached \$5,000. Carrier liability under this system is generally increased because it is no longer computed on a weight per article basis. In return,

BEST AVAILABLE COPY

DOD agreed to pay a compensatory fee to carriers (in addition to transportation charges). In a 1988 report,¹ GAO determined that the separate charge would provide sufficient revenue to compensate only the better performing carriers for their increased liability costs. GAO concluded that the increased liability program should remain in effect until carrier performance data or additional cost information indicated that changes were needed.

In March 1993, MTMC informed the carrier industry that in October 1993 it intended to implement similarly increased carrier liability for DOD international household goods shipments. Adoption of the \$1.25 rate for these shipments was deferred because of carrier resistance. However, in October 1993, MTMC increased carrier liability on international household goods shipments on an interim basis to \$1.80 per pound per article, pending the completion of GAO's review.

Results in Brief

Household goods claims costs have declined and carrier performance has improved since DOD increased carrier liability on domestic household goods shipments in 1987. Claims costs declined by an estimated cumulative total of \$18.9 million during fiscal years 1987 to 1991. However, these savings were \$3.2 million less than projected because only the Air Force achieved the expected level of cost recovery from carriers.

Carrier liability for DOD international household goods shipments needs to be increased. Carrier liability of \$0.60 per pound per article for these shipments severely restricts DOD's ability to recover the cost of loss and damage inflicted during shipment, increases government costs, and limits carrier incentive to improve performance.

GAO concurs with DOD's proposal to change carrier liability on international shipments from a per pound, per article basis to one based on shipment valuation. However, such a change could cause major industry disruption unless carriers initially receive compensatory payments in exchange for the increased liability.

The household goods program also has management and administrative problems that need to be addressed concurrently with any increase in carrier liability. Some of these, such as the unnecessarily long 2-year

¹Household Goods: Implications of Increasing Moving Companies' Liability for DOD Shipments (GAO/NSIAD-88-103, Mar. 24, 1988).

statutory period for filing personal property claims, are problems GAO identified in its previous report.

Principal Findings

Domestic Program Cost and Damage Levels Have Declined

DOD appears to be achieving its objectives of reducing shipment loss, damage, and overall program cost by increasing carrier liability. The percentage of domestic shipments experiencing loss and damage remained constant at about 20 percent after the implementation of increased carrier liability in 1987. However, an \$18.9 million decline in claims costs during fiscal years 1987 through 1991 suggests that poorly performing domestic household goods carriers have improved their performance, withdrawn from DOD domestic household goods shipment programs, or absorbed losses. Competition among carriers for DOD business also appears to have helped reduce damage and loss. GAO believes that carriers now have the claims experience needed under increased liability to adjust their rates to compensate for any increased liability costs, thus making further compensatory payments unjustified.

Carrier Liability for DOD International Shipments Needs to Be Increased

Claims frequency and claims costs for international shipments increased during fiscal years 1988 through 1991. Claims frequency increased from 20 percent to almost 24 percent of total shipments moved. Claims costs, after adjusting for inflation, increased from \$6.22 per 100 pounds shipped to a high of \$6.65 per 100 pounds. At maximum carrier liability of \$0.60 per pound per article, recovery was less than 20 percent of the amount of claims paid for all the military services reviewed.

Compensatory Payments Should Accompany New Liability Formula for International Carriers

GAO's analysis of DOD household goods shipment and claims data established that a rate of from \$1.50 to \$2.04 for each \$100 of shipment valuation should adequately compensate the better-performing carriers for increased liability costs associated with adopting the \$1.25 rate on international shipments. These payments should remain in effect for at least a 3-year period or until such time carriers can adjust their transportation rates to compensate for increased liability costs.

Such payments would reduce the potentially disruptive aspects of changing the method traditionally used by carriers to estimate claims costs

and determine their transportation rates. Carriers with liability costs greater than the added revenues could (1) improve performance so less loss and damage occur, (2) increase transportation rates, or (3) absorb the loss.

Carrier industry officials were generally opposed to the \$1.25 rate proposed by DOD. They said this rate would be inappropriate for international shipments because (1) no determination had been made that the \$1.25 liability rate actually reduces program costs, (2) the international and domestic programs are so different as to prevent meaningful comparison, and (3) changing carrier liability to the \$1.25 rate would result in severe industry disruption.

Management and Administrative Improvements Needed

DOD needs to address several management and administrative problems affecting its household goods programs if increased liability is to work properly. First, MTMC does not have adequate household goods shipment and claims information with which to evaluate individual carrier performance or to determine program costs associated with increased carrier liability. Second, varied recovery effectiveness by the military services resulted in savings being reduced from an expected total of \$22 million to an actual total of \$18.9 million during fiscal years 1987 through 1991. Only the Air Force attained the expected recovery levels. Third, past government actions to recover the cost of losses associated with household goods carrier bankruptcies have been inadequate. Since the level of government funds at risk is increased under increased carrier liability, carrier bonding and insurance requirements need to be reviewed and increased emphasis placed on bond and insurance collection.

In 1989, GAO concluded that the 2-year period allowed by statute for federal employees to file household goods claims is needlessly long.² The 2-year period continues to contribute to claims management and adjudication problems, limits carrier ability to make timely adjustments to transportation rates, and increases government costs.

Recommendations to the Secretary of Defense

GAO recommends that the Secretary of Defense take the following actions:

- Direct the Commander of MTMC to eliminate the separate charge now paid carriers to compensate them for increased risk on domestic shipments.

²Household Goods: Evaluation of DOD Claims Payment and Recovery Activities (GAO/NSIAD-89-67, Feb. 24, 1989), p.16.

- Direct the Commander of MTMC to increase carrier liability to the \$1.25 rate on international household goods shipments after providing adequate notice to carriers through the Federal Register. However, GAO also recommends that this rate be accompanied by a compensatory payment for 3 years, or until adequate claims data permits carriers to file transportation rates that will adequately compensate them for the increased risk they would assume.

Other recommendations to the Secretary of Defense regarding management and administrative problems affecting DOD household goods programs are contained in chapter 4 of this report.

Matter for Congressional Consideration

A 1989 GAO report recommended shortening the statutory period for filing household goods claims. Making timely adjustments to transportation rates will be even more important to carriers under increased carrier liability. GAO therefore again recommends that the statute—insofar as it pertains to household goods claims—be changed to limit the time allowable for filing claims to 1 year after the claim accrues.

Agency and Industry Comments and GAO's Evaluation

GAO asked DOD and the carrier industry to comment on this report. Carrier industry comments were consolidated and submitted by the American Movers Conference and the Household Goods Forwarders Association of America, Inc. DOD and industry comments are addressed in more detail in the report chapters to which they pertain. Complete DOD and industry comments are included as appendixes I, II, and III.

DOD Comments

DOD concurred with all the findings and recommendations in this report except the recommendation that Congress consider shortening the statute of limitations for filing household goods claims. In commenting on this report, DOD stated the statutory period should remain unchanged so as to retain consistency with other claims statutes and because some servicemembers on operational deployments or overseas assignments might be precluded from filing a claim within a 1-year period. It believes shortening the time allowed for filing claims would be perceived as an erosion of benefits by servicemembers. GAO believes a 1-year statute of limitations would be adequate, and that the implementing regulations allow for exceptions where warranted. Specific actions taken by DOD in response to GAO's other recommendations are discussed in each report chapter.

Carrier Industry Comments

The carrier industry generally disagreed with GAO's findings and recommendations regarding increased carrier liability. It believes increased carrier liability has had little impact on domestic household goods shipments beyond transferring the cost of claims from DOD to the carrier industry, and that the inflation index GAO used to calculate DOD's savings causes the amount of these savings to be overstated. The carrier industry also believes that experience with increased liability on domestic shipments cannot be appropriately used as the basis for expanding increased carrier liability to international shipments, and that the industry cannot compensate for its increased liability costs by adjusting transportation rates. The industry therefore favors retention of the traditional per pound per article basis for calculating carrier liability on international shipments. The carrier industry agreed with GAO's recommendation that Congress consider shortening the statutory period allowed for filing household goods claims.

Shifting more of the burden of claims costs from DOD to the carrier industry was a primary objective of DOD's implementation of increased carrier liability. DOD has historically borne a disproportionately large share of claims costs. Increasing carrier liability transfers a greater portion of claims costs to the industry responsible for causing them. Even under increased liability, DOD still pays at least 20 percent of claims costs. Increased liability also provides increased incentive for carriers to find ways to reduce shipment damage and loss. If carrier transportation rate increases are needed to pay for increased carrier costs, the only real restraint is competition among the carriers themselves.

Differences do exist with regard to the amount of carrier risk associated with domestic as opposed to international shipments, but the process for adjudicating claims for loss and damage is essentially the same. The issue is what liability rate should be applied. The per pound per article basis for determining maximum carrier liability should be abandoned because it bases liability on a lost or damaged item's weight rather than its value.

When designing the methodology for this review, GAO reached agreement with the carrier industry that the Consumer Price Index would be used to enable cross-year dollar comparisons and to adjust for inflation. Carrier industry officials suggested an alternate index only after seeing the results of GAO's analysis. Nevertheless, GAO acknowledges general controversy over whether the Consumer Price Index overstates inflation. Regardless of which index is used, increased carrier liability still results in reduced DOD claims costs.

Contents

Executive Summary	2
Chapter 1	12
Introduction	12
Determining Carrier Liability for Losses and Damage	12
Carrier Liability for Domestic Shipments Increased in 1987	12
Carriers Compensated for Increased Liability	13
We Evaluated Proposed Increase in Liability	14
MTMC Proposes Extending Increased Liability to International Shipments	15
Objectives, Scope, and Methodology	15
Chapter 2	18
Domestic Claims	18
Costs Reduced and	25
Carrier Performance	27
Improved	28
DOD Claims Costs Declined	18
Carrier Industry Concerns Did Not Materialize	25
Claims Frequency Unchanged but Average Amount of Claims Declined	27
Separate Charge Could Be Eliminated	28
Conclusions	28
Recommendation to the Secretary of Defense	29
Comments From the Department of Defense	29
Comments From the Carrier Industry	29
Chapter 3	32
Carrier Liability for	32
International	33
Shipments Needs to	35
Be Increased	37
DOD Proposes Extending the \$1.25 Carrier Liability Rate to International Shipments	32
Analysis of Shipment and Claims Data Supports the Need to Increase Carrier Liability	33
MTMC's Proposal Would Reduce International Shipment Costs	35
Determining a Fair and Adequate Separate Charge Is Difficult	37
Impact of the Temporary \$1.80 Per Pound Per Article Rate	40
Carrier Industry Opposes the Proposed Change	41
Conclusions	43
Recommendation to the Secretary of Defense	44
Comments From the Department of Defense	44
Comments From the Carrier Industry	44

Chapter 4		48
Problems Need to Be Addressed for Increased Liability to Be Fully Effective	MTMC Data Is Inadequate	48
	More Emphasis Is Needed on Military Service Recovery Activities	49
	Carrier Bonding and Insurance Needs to Be Reviewed	50
	Statute of Limitations Appears Needlessly Long	52
	Conclusions	54
	Recommendations to the Secretary of Defense	54
	Matter for Congressional Consideration	55
	Comments From the Department of Defense	55
	Comments From the Carrier Industry	56
Appendixes		
	Appendix I: Comments From the Department of Defense	58
	Appendix II: Comments From the American Movers Conference	78
	Appendix III: Comments From the Household Goods Forwarders Association of America	95
	Appendix IV: Draft of Proposed Statutory Changes	118
	Appendix V: Major Contributors to This Report	119
Tables		
	Table 2.1: Air Force Claims Costs, Domestic Household Goods Shipments	19
	Table 2.2: Air Force Claims Cost Savings Under Increased Carrier Liability, Domestic Household Goods Shipments	20
	Table 2.3: Total Air Force Claims Costs, Domestic Household Goods Shipments	22
	Table 2.4: DOD Recovery Effectiveness for Domestic Household Goods Claims,	24
	Table 2.5: Air Force Domestic Household Goods Shipment Program Net Costs	26
	Table 2.6: Average Amounts of Claims Paid to Servicemembers	27
	Table 3.1: Transportation and Claims Costs for Containerized International Household Goods Shipments, Army, Air Force, and Marines	34
	Table 3.2: Impact of the \$1.25 Rate on DOD Costs at Varying Compensatory Rate Levels	40
	Table 4.1: Rate of Household Goods Claims Filings, Fiscal Year 1991	53
Figure		
	Figure 2.1: Air Force Claims Cost Comparison, \$0.60 Per Pound Per Article Versus \$1.25 Shipment Valuation Liability, Fiscal Years 1986-91	21

Contents

Abbreviations

AMC	American Movers Conference
DOD	Department of Defense
HHGFAA	Household Goods Forwarders Association of America
MTMC	Military Traffic Management Command

Introduction

The Department of Defense (DOD) spends more than \$700 million each year to move military servicemembers' and civilian employees' household goods and personal effects. It pays servicemembers and civilian employees an additional \$50 million or more each year in claims for shipment loss and damage. DOD shares liability with carriers for this loss and damage. Both government and carrier costs are significantly affected by the cost of claims.

Determining Carrier Liability for Losses and Damage

Servicemembers with loss or damage to their household goods and personal effects may file claims against the government for the amount of loss. The military services' Judge Advocates General have primary responsibility for operating claims offices, adjudicating claims, and for authorizing payment to servicemembers. Payment to members is generally based on the full depreciated value of the damaged or lost items or the cost of repairs, whichever is less. The maximum amount allowed per shipment is \$40,000. Claims offices then attempt recovery from the carrier to the extent of the carrier's liability.

From 1967 to 1987, carriers handling military household goods shipments were liable for loss and damage at the rate of \$0.60 per pound per article for both domestic and overseas shipments. For example, if a carrier lost or damaged a 70-pound television worth \$400, it was liable for the depreciated value or for repairs, whichever was less—up to a maximum of \$42 (70 pounds times \$0.60).

Carrier Liability for Domestic Shipments Increased in 1987

In mid-1987, the Military Traffic Management Command (MTMC)—DOD's traffic manager—increased carrier liability for DOD domestic household goods shipments. Under the new system, the carrier is liable for the full depreciated value of damaged or lost articles up to a maximum amount (valuation) per shipment based on the shipment weight multiplied by \$1.25 per pound. For example, if a shipment weighs 4,000 pounds, the carrier is liable for a maximum of \$5,000 (4,000 pounds times \$1.25). If only one article in the shipment is lost, and its depreciated value is established at \$5,000, the carrier is liable for this amount. In the case of the \$400 television, the carrier would be liable for the full depreciated value (\$400) or the cost of repairs, whichever is less, and for all other lost or damaged articles in the shipment until the total amount of loss and damage reached \$5,000. Carrier liability under this system is generally increased.

MTMC increased carrier liability in 1987 based on the results of an Air Force test—Project REVAL. Project REVAL reported that the average amount of household goods claim paid to the servicemember would be reduced by 34 percent on shipments moved at the \$1.25 liability rate (purchased for a separate charge of \$0.50 per \$100 valuation). The Air Force concluded that (1) the increased liability gave the carriers incentive to reduce shipment damage and (2) the combination of reduced average claim amounts and added liability compensation would reduce claims costs for both the government and the carriers.

Other major factors in MTMC's decision to increase carrier liability included (1) the high frequency and cost of damage and loss to military servicemembers' household goods, (2) the inadequacy of the former liability rate in covering a reasonable share of the liability for losses, (3) the need to provide increased carrier incentive for reducing claims, and (4) increases in government costs associated with military servicemembers' household goods claims.

Carriers Compensated for Increased Liability

When DOD increased carrier liability on DOD domestic shipments to the \$1.25 rate in 1987, MTMC began paying carriers a separate charge (in addition to transportation charges) for the additional liability. MTMC set this separate charge at \$0.64 per \$100 of shipment valuation, plus 10 percent of temporary storage charges.

The increased liability system adopted by MTMC was similar to that available for commercial shipments in 1987. Carrier transportation rates then automatically provided for carrier liability of \$0.60 per pound per article. Increased liability could be purchased for a separate charge. At the time, carrier liability up to \$1.25 times the shipment weight was available for \$0.50 for every \$100 of shipment valuation (shipment weight multiplied by \$1.25 divided by \$100 multiplied by \$0.50). Rates for additional liability on commercial shipments are approved by the Interstate Commerce Commission. However, DOD household goods shipments are governed generally by provisions in DOD rate solicitations, and may differ from commercial practices.

The carrier industry objected to moving DOD household goods at the commercial \$1.25 rate primarily because military servicemember claims for loss and/or damage are settled by the military services. In commercial practice, the carrier usually settles such claims directly with the owner. The carrier industry generally believed that military claims settlement was

too generous and resulted in excessive claims costs to the carrier. At one time, DOD allowed carriers to settle claims directly with the servicemember. This practice was changed, according to DOD, because carrier resolution of claims was found to be unacceptable.

MTMC agreed to pay a separate charge of \$0.64 per \$100 valuation plus 10 percent of temporary storage charges instead of the commercial separate charge of \$0.50 per \$100 valuation plus 10 percent of temporary storage charges because the military services wanted to retain claims settlement authority for DOD household goods shipments. At the time, carrier industry associations contended that the separate charge for this level of carrier liability should have been \$1.13 per \$100 valuation, plus 10 percent of temporary storage charges.

We Evaluated Proposed Increase in Liability

Shortly before MTMC increased carrier liability on DOD domestic shipments in 1987, the Chairman, House Committee on Armed Services, asked us to review MTMC's proposed changes and to determine a fair and adequate rate to compensate carriers for the increased liability. We subsequently reported that such a rate could not then be determined because (1) at the time of our review it was too early to determine the impact that increased liability would have on carrier performance and (2) determining a fair and adequate compensation level required a policy judgment about the appropriate performance level to be expected from carriers.¹

We also reported that the \$0.64 rate proposed by MTMC would compensate only the better-performing carriers if carriers performed as they did in fiscal year 1985, the most recent year for which adequate claims data was available. We estimated that at the 1985 performance level, approximately \$3 million to \$4 million in government costs would be transferred to the carriers under the increased liability, and that this should provide increased incentive for carriers to improve their performance. Carriers with liability costs greater than added revenues could (1) improve performance so less damage and loss occurred, (2) increase transportation rates, or (3) absorb the loss.

We consequently supported MTMC's 1987 policies for increasing carrier liability on domestic household goods shipments and concluded that the rate of carrier compensation for the increased liability established by MTMC

¹Household Goods: Implications of Increasing Moving Companies' Liability for DOD Shipments (GAO/NSIAD-88-103, Mar. 24, 1988).

in 1987 should remain unchanged until carrier performance data or additional cost information indicated that changes were needed.

MTMC Proposes Extending Increased Liability to International Shipments

In March 1993, MTMC proposed that carrier liability also be increased from the \$0.60 per pound per article rate to the \$1.25 rate for international household goods shipments. However, MTMC's proposal did not include a provision for any separate compensation to carriers for the increased liability. The carrier industry objected to the proposed changes, stating that international shipments were vastly different in nature from domestic shipments, and that no determination had been made of whether MTMC's 1987 increase in domestic shipment liability had achieved its objectives of reducing the number and amount of damage claims and reducing government costs.

During October 1993, MTMC increased carrier liability on international household goods shipments on an interim basis to \$1.80 per pound per article, pending the completion of our review.

Objectives, Scope, and Methodology

At the request of the former Chairman, Subcommittee on Readiness, House Committee on Armed Services, we evaluated DOD household goods shipment programs to (1) determine the impact of the 1987 increase in carrier liability on domestic shipments and (2) suggest the level and type of carrier liability DOD should adopt for international shipments.

During this review, we interviewed officials and reviewed documents associated with programs for the movement of household goods at MTMC, the Department of State, the offices of the Army, Navy, and Air Force Judge Advocates General, and Headquarters, U.S. Marine Corps. We also interviewed and obtained documents from carrier association officials and representatives of selected carriers.

To facilitate our analysis, we obtained computerized records on almost 2.5 million DOD household goods shipments moved during fiscal years 1986 through 1991. We obtained computerized shipment and claims data from MTMC on all DOD domestic household goods shipments (MTMC shipment codes 1 and 2) and most international shipments (MTMC shipment codes 4, 7, 8, and J) initiated during fiscal years 1986 through 1991. We analyzed shipment and claims data for each of these codes. However, unless otherwise indicated, the data presented in this report for domestic shipments refers to uncontainerized van shipments (code 1) and to

containerized international shipments (code 4). These two major types of shipments comprise the vast majority of DOD household goods shipments by both number and weight.

MTMC data was not available for shipments occurring prior to fiscal year 1986. Also, we did not evaluate data for fiscal years after 1991 because considering the 2-year statute of limitations for servicemembers to file household goods claims against the government, inadequate time has passed to obtain sufficient claims data for analysis on these shipments.

To verify the accuracy of claims data in the MTMC shipment records, we obtained from the offices of the service Judge Advocates General all computerized claims payment and recovery data available as of August 1993 for fiscal years 1986 through 1991. Only the Air Force could provide complete claims data for all years requested. The Army and the Marine Corps data was complete only for fiscal years 1988 through 1991 because claims data records for these services were not computerized prior to fiscal year 1988. We did not obtain data from the Navy because this service has not computerized its claims records. We did not attempt to manually review claims payment and recovery records because of the time and resources such analyses would require.

We then did a computer matching of MTMC shipment data with the available military service claims data by Government Bill of Lading number. We associated all recorded claims data with the shipments involved, regardless of when the claims were filed, adjudicated, paid, and recovered. We used this method rather than rely on summarized military service claims payment and recovery records because the services summarize this information according to the fiscal year in which payment and recovery occurred. Service claims payment and recovery on a shipment often occurs in a different fiscal year than the one in which the shipment was moved.

We evaluated carrier performance and claims costs by computer sorting the available shipment and claims data by carrier identification codes. In some cases, we also sorted carrier data by a specific traffic route.

Carrier industry representatives (the American Movers Conference and the Household Goods Forwarders' Association of America, as well as selected carriers) and DOD reviewed and concurred with our methodology for analyzing household goods shipment and claims data before we did this analysis. MTMC and each of the military services providing shipment and

claims data concurred with the accuracy of the results of our data analysis.

To perform this analysis, we combined data using different computer languages and formats into a single, common database. We provided our computer programs and analysis results to MTMC at the conclusion of our review because this information has many potential applications for the improved management of household goods activities, particularly those associated with evaluating individual carrier performance and military claims office adjudication and recovery efforts. To adjust our cost data for the effect of inflation, we used the Consumer Price Index to convert actual dollars to constant fiscal year 1993 dollars.

We conducted our review from May 1993 to November 1994 in accordance with generally accepted government auditing standards.

Domestic Claims Costs Reduced and Carrier Performance Improved

DOD claims costs declined after DOD increased carrier liability on domestic household goods shipments in 1987. Our analysis of DOD shipment and claims data for fiscal years 1987 through 1991 showed that DOD saved about \$18.9 million in claims costs during this period. DOD would have saved an additional \$3.2 million if all the military services had pursued claims recovery from carriers as effectively as the Air Force.

Carrier performance on domestic shipments also improved. Although the claims frequency rate remained unchanged at about 20 percent of all shipments, the average amount of claim DOD paid to servicemembers declined under the increased liability from over \$800 in fiscal year 1986 to \$728 in fiscal year 1991. This represents an overall reduction of about 9 percent.

The carrier industry generally opposed increased carrier liability, citing concerns that higher military service recovery levels would result in almost all claims being paid by the carriers. The industry questioned whether increased liability would reduce overall government household goods program costs. Our analysis showed that these concerns did not materialize.

DOD Claims Costs Declined

DOD claims costs for domestic household goods shipments declined after maximum carrier liability on these shipments was increased in 1987 from \$0.60 per pound per article to the \$1.25 valuation rate. For example, our analysis of Air Force computerized household goods shipment and claims data showed that the Air Force reduced annual domestic shipment claims costs during fiscal years 1988 through 1991 by 20 to 27 percent compared to the fiscal year 1986 level. This resulted in savings on Air Force shipments totaling about \$7 million for the period.

We could not determine overall DOD savings with the same accuracy as we could for the Air Force because Army and Marine Corps claims records were not computerized until 1988, and Navy claims records had not been computerized at the time of our review. However, our review of the available data showed that claims costs for the other services also declined. We estimate that increased carrier liability resulted in overall DOD savings totaling about \$18.9 million during fiscal years 1987 through 1991.

Air Force Claims Data Demonstrates the Impact of Increased Carrier Liability

We analyzed claims costs for 363,776 Air Force domestic household goods shipments moved during fiscal years 1986 through 1991. The Air Force paid servicemember claims for loss and/or damage on 75,198, or about 21 percent, of these shipments.

Annual Air Force claims costs after implementing the \$1.25 rate (fiscal years 1988 through 1991) ranged from 20.3 percent to 27 percent less (an average of almost 24 percent less) than what they were in fiscal year 1986. Table 2.1 compares claims costs at the \$1.25 rate after fiscal year 1987 with those at the \$0.60 per pound per article rate in fiscal year 1986. The decrease for fiscal year 1987 is much less than for the other fiscal years because the \$1.25 rate was implemented in mid-year. Claims costs are expressed in terms of claims cost per hundredweight [cwt]¹ to minimize the skewing effect of yearly fluctuations in shipment numbers, claims, and weights.

Table 2.1: Air Force Claims Costs, Domestic Household Goods Shipments

Costs in constant fiscal year 1993 dollars

	Fiscal year					
	1986	1987	1988	1989	1990	1991
Number of shipments	72,930	65,474	68,647	62,591	41,046 ^f	53,088
Shipment hundredweight (cwt) ^a	3,654,125	3,315,087	3,298,684	3,200,404	2,184,620	2,776,982
Total claims cost ^b	\$8,665,342	\$7,228,765	\$6,220,856	\$5,543,828	\$4,085,774	\$4,818,759
Claims cost per cwt ^c	\$2.37	\$2.20	\$1.89	\$1.73	\$1.87	\$1.74
Cost difference (cwt) compared to FY 1986 ^d	\$0.00	\$(0.17)	\$(0.48)	\$(0.64)	\$(0.50)	\$(0.63)
Percent cost reduction compared to FY 1986 ^e		7.2	20.3	27.0	21.1	26.6

^aTotal weight of shipments divided by 100.

^bAmount of claims paid less recoveries for fiscal year 1986; amount of claims paid less recoveries plus separate charges for fiscal year 1987 and after.

^cTotal claims cost divided by shipment hundredweight.

^dFiscal year 1986 cwt cost (\$2.37) less current year cwt cost.

^eCost difference (cwt) divided by fiscal year 1986 cwt claims cost (\$2.37).

^fAir Force officials told us that the reduced number of shipments in fiscal year 1990 was probably at least partially caused by Operation Desert Storm.

¹Per 100 pounds of shipment weight.

We estimate that these claims cost reductions resulted in total savings of \$7 million on Air Force domestic household goods shipments during fiscal years 1987 through 1991, or an average savings of about \$1.6 million per year for fiscal years 1988 through 1991. We calculated the amount of savings by multiplying the hundredweight cost differences from fiscal year 1986 levels in table 2.1 by total shipment hundredweight for each fiscal year, as shown by table 2.2.

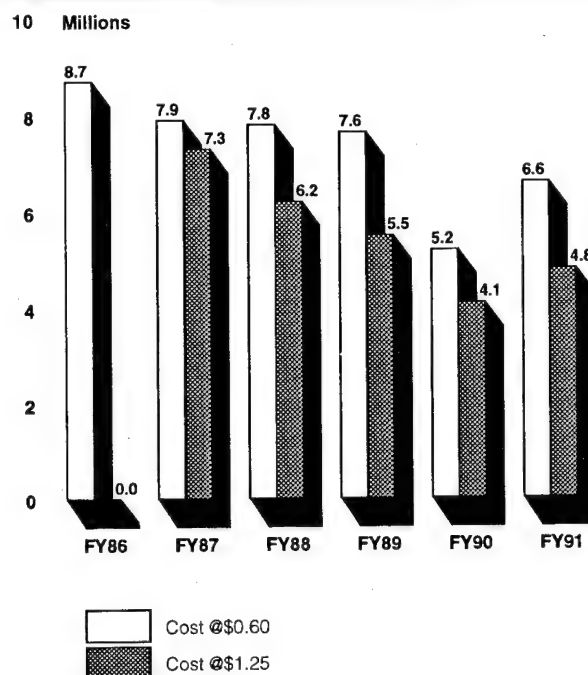
Table 2.2: Air Force Claims Cost Savings Under Increased Carrier Liability, Domestic Household Goods Shipments

Constant fiscal year 1993 dollars

	Fiscal year					Total
	1987	1988	1989	1990	1991	
Shipment cwt	3,315,087	3,298,684	3,200,404	2,184,620	2,776,982	14,775,777
Cwt cost difference compared to FY1986	\$(0.17)	\$(0.48)	\$(0.64)	\$(0.50)	\$(0.63)	•
Amount saved	\$563,565	\$1,583,368	\$2,048,259	\$1,092,310	\$1,749,499	\$7,037,001

Figure 2.1 illustrates the amount saved by comparing claims costs for fiscal years 1986 through 1991 with those that would have occurred in these fiscal years if claims cost per hundredweight levels had remained the same as occurred under the \$0.60 rate in fiscal year 1986. For example, the figure shows that fiscal year 1989 claims costs at the \$0.60 rate would have been \$7.6 million in constant fiscal year 1993 dollars. However, at the \$1.25 rate, these costs were actually \$5.5 million during fiscal year 1989, resulting in constant dollar savings of over \$2 million during that fiscal year.

Figure 2.1: Air Force Claims Cost Comparison, \$0.60 Per Pound Per Article Versus \$1.25 Shipment Valuation Liability, Fiscal Years 1986-91 (Constant Fiscal Year 1993 Dollars)



Air Force overall claims costs for these shipments declined beginning in 1987 even though DOD paid carriers a separate charge in addition to transportation charges for the increased liability. In other words, the Air Force recovered more from carriers than the separate charge paid them for the increased liability.

Table 2.3 illustrates the impact of increased recovery on Air Force constant dollar claims costs and shows (1) how overall Air Force costs for domestic shipments declined from about \$8.7 million in fiscal year 1986 to between \$4 million and \$5 million in fiscal years 1990 and 1991, (2) how much the Air Force paid carriers for the increased liability, and (3) how the increased liability adjusted the percentage of overall claims costs paid by the Air Force and household goods carriers. Total Air Force claims costs declined by more than the 24-percent average reduction attributable to increased carrier liability because the total number of shipments, and consequently claims, also declined during this period.

Table 2.3: Total Air Force Claims Costs, Domestic Household Goods Shipments

Constant fiscal year 1993 dollars

	Fiscal year					
	1986 ^a	1987 ^b	1988	1989	1990	1991
Claims paid by Air Force	\$12,369,117	\$10,228,040	\$9,937,746	\$10,310,063	\$6,868,076	\$7,653,141
Less recovery from carriers	3,703,775	5,396,387	7,763,666	8,264,884	5,379,556	5,584,825
Subtotal	8,665,342	4,831,653	2,174,080	2,045,179	1,488,520	2,068,316
Plus amount paid carriers for increased liability (compensatory payment) ^c	0	2,457,112	4,046,777	3,498,649	2,597,254	2,750,443
Total Air Force claims cost	\$8,665,342	\$7,288,765	\$6,220,856	\$5,543,828	\$4,085,774	\$4,818,759
Percent claims cost paid by Air Force	70	71	63	54	59	63
Percent claims cost paid by carriers	30	29	37	46	41	37

^aCarrier liability at \$0.60 per pound per article.

^bCarrier liability increased (May 1987) to \$1.25 shipment valuation.

^c\$0.64 per \$100 valuation plus 10 percent of certain storage fees.

Increased Carrier Liability Offers Potential DOD Savings of \$22 Million

Based on the complete Air Force data, and Army and Marine Corps data that was available, we estimate that DOD would have saved \$22 million during fiscal years 1987 through 1991 as the result of increased carrier liability on domestic household goods shipments if all the military services had performed as effectively as the Air Force. As previously mentioned, we could not determine the impact of increased carrier liability on DOD's overall costs as accurately as we could for the Air Force because claims data for the other services was less complete.

However, both DOD and carrier industry officials told us, and MTMC shipment data confirmed, that the physical characteristics of household goods shipments vary little between the military services. Air Force shipments averaged almost 32 percent of total DOD domestic household goods shipments by weight during fiscal years 1986 through 1991. We therefore estimated that if all the services had performed at the Air Force level, then total DOD savings at the \$1.25 rate would have been slightly over \$22 million (known Air Force savings of \$7,037,001 divided by 0.3193).

Varying Recovery
Effectiveness Limited DOD
Savings

The amount of savings that can be realized from increased carrier liability depends on how effectively DOD recovers claims costs from carriers. Project REVAL estimated that under the increased liability, DOD recovery from carriers would average 78 percent of the amount of claims paid to servicemembers.

We found, however, that DOD did not realize its full savings potential of \$22 million during fiscal years 1987 through 1991 because the other military services were not as effective as the Air Force in recovering from carriers. Only the Air Force met REVAL expectations. Our analysis of Army and Marine Corps data for fiscal years 1988 through 1991 showed that these services did not meet this recovery standard, which brought the overall average DOD recovery rate down to about 65 percent of the amount of claims paid during this period. Table 2.4 illustrates these variations in military recovery effectiveness in actual dollars.

**Table 2.4: DOD Recovery Effectiveness
for Domestic Household Goods
Claims, (Fiscal Years 1986-91)**

Actual dollars				
	Fiscal year	Amount claims paid	Amount recovered	Percent recovered
Air Force	1986	\$9,412,898	\$2,818,573	29.94
	1987	8,008,555	4,225,371	52.76
	1988	8,099,263	6,327,388	78.12
	1989	8,804,794	7,058,211	80.16
	1990	6,160,664	4,825,462	78.33
	1991	7,209,259	5,260,905	72.97
Total FY1988-91		30,273,980	23,471,966	77.50
Army	1988	10,582,444	5,613,977	53.05
	1989	11,487,650	6,961,575	60.60
	1990	9,221,234	5,354,449	58.07
	1991	9,482,467	5,143,991	54.25
Total FY1988-91		40,773,795	23,073,992	56.59
Marine Corps	1988	1,303,877	900,925	69.10
	1989	1,245,811	873,826	70.14
	1990	1,020,348	642,618	62.98
	1991	515,392	238,334	46.24
Total FY1988-91		4,085,428	2,655,703	65.00
Combined	1988	19,985,584	12,842,290	64.26
	1989	21,538,255	14,893,612	69.15
	1990	16,402,246	10,882,529	65.98
	1991	17,207,118	10,643,230	61.85
Total FY1988-91		\$75,133,203	\$49,261,661	65.57

Note: The percent recovered by the Marine Corps during fiscal year 1991 was unusually low due largely to claims recovery processing backlogs.

To determine actual savings, we adjusted the \$22 million downward to reflect the differences between the Air Force recovery rate and those actually achieved by the other services. We estimated that actual DOD savings attributable to increased carrier liability for domestic shipments during fiscal years 1987 through 1991 was \$18.9 million, or almost \$3.2 million less than it would have been if all the services had recovered as effectively as the Air Force. The impact of variances in military service recovery effectiveness is discussed further in chapter 4.

Carrier Industry Concerns Did Not Materialize

In commenting on our 1988 report, carrier industry officials objected to DOD's implementation of the increased liability program in part because they believed the DOD recovery rate would increase to as much as 95 percent. At this rate, almost all claims costs would be passed to carriers. As shown in table 2.4, this did not occur. Instead, because of varying service recovery effectiveness, actual carrier claims costs were lower than predicted by REVAL, and far lower than carrier estimates.

Increased carrier liability does transfer a greater portion of claims costs to carriers, but DOD still pays more than half of household goods claims costs. For example, under the \$0.60 rate in fiscal year 1986, the Air Force recovered from carriers about 30 percent of the amount of claims paid to servicemembers. Under the \$1.25 rate after fiscal year 1987, Air Force recovery from carriers on domestic shipments increased to an average of almost 78 percent of the amount of claims paid, but carriers also received payments for the additional liability through separate charges. Consequently, under increased liability during fiscal years 1988 through 1991, the carriers actually paid a maximum of 46 percent of Air Force claims costs (see table 2.3).

Carrier industry representatives also told us they believed that even if DOD claims costs declined under the \$1.25 rate, overall DOD costs might still have increased over the levels experienced under the \$0.60 per pound per article rate if carriers had increased their transportation rates to compensate for the increased liability. However, we found that DOD household goods program net costs for domestic shipments (transportation costs plus claims costs less recoveries) also declined after the \$1.25 rate was adopted in 1987. Table 2.5 illustrates how program costs declined from the level experienced before increased carrier liability was implemented in 1987.

Table 2.5: Air Force Domestic Household Goods Shipment Program Net Costs

Constant fiscal year 1993 dollars

	Fiscal year					
	1986	1987	1988	1989	1990	1991
Carrier transportation costs ^a	\$244,360,192	\$208,032,331	\$210,942,545	\$180,923,059	\$134,302,174	\$149,653,535
Claims paid by Air Force	12,369,117	10,228,040	9,937,746	10,310,063	6,868,076	7,653,141
Total	256,729,309	218,260,371	220,880,291	191,233,122	141,170,250	157,306,676
Less recovery from carriers	3,703,775	5,396,387	7,763,666	8,264,884	5,379,556	5,584,825
Net program cost	\$253,025,534	\$212,863,984	\$213,116,625	\$182,968,238	\$135,790,693	\$151,721,851
Net program cost per hundredweight shipped	\$69.24	\$64.21	\$64.61	\$57.17	\$62.16	\$54.64

^aIncludes any compensatory payments for increased liability.

Declining program costs cannot be attributed solely to increased carrier liability. Transportation rates are influenced by many factors other than claims costs, such as insurance, competition, and individual carrier costs related to personnel, equipment, and facilities.

Our analysis of DOD claims data by individual carrier confirmed that many carriers, especially those with high rates of loss and damage, were encountering claims costs higher than the compensatory revenues they received for the increased liability. These carriers could have compensated by raising their transportation rates. However, carrier industry officials told us that carriers had instead chosen to absorb these costs. They said the carrier industry was overbuilt, and that carriers in general were reluctant to increase transportation rates for fear of losing DOD business to other carriers with unchanged or lower rates. Both intense carrier competition and increased carrier liability therefore appear to have contributed to lowered DOD net program costs.

We could not determine to what extent lowered net program cost was due to reduced claims costs versus other factors. These other factors vary between carriers and are difficult to measure. It is clear, however, that net domestic program costs declined after DOD implemented increased carrier liability, and that reduced claims costs contributed to this decline.

Claims Frequency Unchanged but Average Amount of Claims Declined

One of DOD's objectives in increasing carrier liability was to increase carrier incentive to prevent loss and damage to household goods. We found that while the percentage of domestic household goods shipments incurring servicemember claims changed very little under increased carrier liability, the average amount of claim paid declined.

Our analysis of Air Force shipment and claims data showed that claims were paid on 20.7 percent of this service's domestic shipments under the \$0.60 rate in fiscal year 1986. After the \$1.25 rate was implemented in 1987, the Air Force claims frequency rate showed little change, ranging from 19.3 to 22.7 percent between fiscal years 1987 and 1991. The combined Army, Air Force, and Marine Corps claims frequency rate was similar, ranging from 18.3 percent to 21.8 percent during fiscal years 1988 through 1991.

However, the average amount of claim paid the servicemember declined under increased liability. Expressed in constant fiscal year 1993 dollars in order to adjust for the effects of inflation, the average amount of claim paid by the Air Force dropped from \$821 in fiscal year 1986 to \$687 by fiscal year 1991, and similar trends appear to have occurred for the Army and Marine Corps claims. Table 2.6 illustrates the declines in average amount of claim paid for the services we reviewed.

Table 2.6: Average Amounts of Claims
Paid to Servicemembers

Constant fiscal year 1993 dollars						
	Fiscal year					
	1986	1987	1988	1989	1990	1991
Air Force	\$821	\$788	\$750	\$766	\$738	\$687
Army	a	a	831	807	807	765
Marine Corps	a	a	820	706	697	674
Combined	a	a	\$796	\$784	\$772	\$728

^aData not available.

Increased liability appears to have provided carriers with increased incentive to improve performance. Carrier industry officials cited a variety of actions they had recently taken to reduce their claims costs. These included holding drivers more responsible for any damage, improving packing and inventory techniques and materials, and providing training and offering incentives designed to improve performance and reduce shipment damage and loss.

Although such improvements do not appear to have had an appreciable impact on claims frequency, they are likely to have been a significant factor in reducing the extent of the damage occurring on shipments with claims. This in turn has contributed to reductions in claims costs to both carriers and DOD.

Separate Charge Could Be Eliminated

MTMC should now eliminate the separate charge paid carriers for the increased liability on domestic shipments. Carriers have had 7 years of claims cost experience under increased liability, and should therefore now be able to compensate for the loss of the separate charge by adjusting their transportation rates. Because none of the military services recovered more than an average of 80 percent of the amount of claims paid in any of the fiscal years we reviewed (see table 2.4), DOD would still absorb at least 20 percent of household goods claims costs. DOD should bear some responsibility for claims costs since DOD, rather than carriers, settles servicemember claims.

Conclusions

The expectations for increased liability set by DOD have in part been achieved. DOD domestic household goods claims costs have declined, carrier performance is somewhat improved, and overall program costs are down. However, claims costs have not declined as much as expected because of varying military service effectiveness in recovering these costs from carriers.

We believe the increased carrier liability at the \$1.25 rate was fair and equitable to both DOD and the carrier industry for the period we reviewed. Under the \$0.60 per pound per article rate, DOD bore more than 70 percent of claims costs, and carriers had little incentive to improve their performance. Under the increased liability, DOD still paid more than half the cost of servicemember claims for shipment loss and damage while reducing overall government costs and encouraging improved carrier performance. Carriers also received financial compensation for additional costs incurred as a result of increased liability.

Carriers have now gained experience with increased liability claims costs, and should be able to build these costs into their transportation rates. Therefore, MTMC should eliminate the separate charge paid carriers for the increased liability on domestic shipments.

Recommendation to the Secretary of Defense

We recommend that the Secretary of Defense direct the Commander of MTMC to eliminate the separate charge now paid to carriers to compensate them for increased risk on domestic shipments.

Comments From the Department of Defense

DOD concurred with our findings and recommendation. DOD's comments indicated that by March 31, 1995, the Office of the Secretary of Defense will direct the Commander, MTMC, to eliminate the separate charge now paid carriers to compensate them for increased risk on domestic shipments. This change is scheduled to take effect on domestic shipments beginning November 1, 1995.

Comments From the Carrier Industry

In commenting on this report, the American Movers Conference (AMC) and the Household Goods Forwarders Association of America, Inc., disagreed with our findings and recommendation. They said that the inflation index we used—the Consumer Price Index—overstated the actual amount of inflation and resulted in an overstatement of the amount of savings accruing to DOD as the result of increased carrier liability on domestic household goods shipments after fiscal year 1987. The AMC further noted that since there was no decrease in the frequency of household goods claims on domestic shipments after 1987, the primary impact of the increase in carrier liability was to transfer the cost of these claims from DOD to the household goods industry.

We used the Consumer Price Index to adjust for inflation and enable dollar comparisons over fiscal years 1986 through 1991 for two primary reasons. First, in order to avoid just such methodology disputes, during the design phase of this assignment, we sought and obtained carrier industry review and concurrence with our analysis methodology, including the use of the Consumer Price Index as the appropriate index for such comparisons. Carrier industry officials suggested changing this index only after seeing the results of our analysis.

After reviewing the alternate index proposed by the AMC, we are not convinced that AMC's index provides a more accurate estimate than the index we used. The AMC maintained that the Consumer Price Index should not be used because it contains many components that have no direct bearing on claims costs, and instead proposed a combination of Consumer Price Index components that it claimed were more directly related to claims costs. However, while the overall Consumer Price Index does not match the specific makeup of household goods claims, neither does the

index proposed by the AMC. It still excludes certain items and costs frequently found in household goods claims such as bicycles, music equipment, and photographic equipment. Also, the weighted values used by AMC's index are based on the pattern of consumer expenditures rather than claims. It is therefore unclear whether or to what degree AMC's index, or any similar index, might be more appropriate for tracking household goods claims costs. Furthermore, the overall Consumer Price Index is readily available in published form and is widely accepted as the appropriate standard for establishing constant dollar comparisons.

However, while the overall Consumer Price Index remains a generally accepted standard for constant dollar comparisons, we acknowledge the existence of controversy over whether this index overstates inflation. AMC acknowledged in its comments that even using their index, increased carrier liability resulted in DOD claims costs reductions of 5.2 percent instead of the 9 percent we reported. Regardless of which index is used, increased carrier liability still resulted in reduced DOD claims costs.

AMC's comments provided numerous additional reasons and data analyses to support further disagreement with the results of our analysis. The AMC cited analyses from our previous reports as the source of some of this data. In fact, the source of the preponderance of this data was AMC comments to our prior report, not work performed by us. Also, this data was based on MTMC data shown to be inaccurate by our current analysis. Furthermore, we disagree with the appropriateness of various technical aspects of the methodology AMC uses in reaching many of its conclusions.

The AMC also suggested that fiscal year 1991 data be removed from our analysis because of differences in certain claims data for this fiscal year compared with similar data for other fiscal years. AMC's comments cited lower claims cost recovery ratios for the Air Force and the Marines in fiscal year 1991 than in any of the prior fiscal years we evaluated, and suggested that some claims data might not have been included for fiscal year 1991 due to late claims filing times.

We believe these fluctuations are within normally expected ranges and that they do not warrant exclusion of the fiscal year 1991 data. For example, while Air Force officials told us that Operation Desert Storm affected claims personnel priorities, they also told us that claims personnel shortages and conflicting priorities were generally likely to affect their ability to consistently maintain an 80-percent recovery rate. All the services confirmed that our analysis accurately reflected their

shipment and claims data for the period reviewed. We also previously investigated the drop in Marine recovery effectiveness from 63 percent in fiscal year 1990 to 46 percent in fiscal year 1991 that AMC cited in its comments. We found that due to a Marine Corps claims processing backlog, some Marine data had not been included in our initial analysis and we modified our report accordingly. However, our review of the missing data revealed it was little different from other Marine claims data and that it was of insufficient volume to affect our analysis results.

We agree with AMC's comment that increased carrier liability has transferred a greater portion of DOD household goods claims costs to the carrier industry. Even after carrier liability was increased for domestic shipments in 1987, DOD paid the majority of these costs—the percentage of claims costs actually paid by carriers ranged from only 29 percent to a high of 46 percent annually. Removing the compensatory payment as we recommended would transfer more, but not in excess of 80 percent, of household goods claims costs to the carrier industry. We believe the carrier industry, not DOD, should be responsible for damage and loss occurring while the shipments are under the control of carriers. Furthermore, increased carrier liability provides carriers with increased incentive to find new ways to prevent or reduce shipment damage and loss. Poorly performing carriers would probably be forced to increase their transportation rates, thus becoming less competitive for DOD business.

In summary, we believe DOD should reasonably expect carriers to deliver shipments in the same condition as when they were submitted for shipment. Costs associated with any damage should be borne by the party causing the damage. Carriers should include costs for loss or damage inherent in moving household goods in their transportation rate bids just like they include other costs, such as packing, unpacking, linehaul, and insurance. Also, we want to make it clear that MTMC does not establish a ceiling on carrier transportation rate bids as implied in AMC's comments. It does establish a standardized baseline rate against which carriers are expected to bid. Carriers can and do bid both above and below this baseline rate. The only restraint to any rate increases is competition among the carriers themselves.

Carrier Liability for International Shipments Needs to Be Increased

At the \$0.60 per pound per article carrier liability rate, DOD absorbed a disproportionate share of the claims costs resulting from loss and damage to international household goods shipments, and carriers had only limited incentive to improve their performance. Our evaluation of DOD shipment and claims data indicates that adoption of the \$1.25 valuation rate for international shipments would be an effective way to lower program costs and reduce the level of loss and damage to servicemembers' household goods.

However, adoption of DOD's proposal to implement the \$1.25 liability rate without any type of compensatory payment or premium might cause a major disruption in the carrier industry. Implementation of the \$1.25 rate would therefore need to be accompanied by a compensatory payment for a limited period. This would give carriers an opportunity to gain experience under the higher claims liability, enabling them to include claims cost increases in future transportation rates.

DOD Proposes Extending the \$1.25 Carrier Liability Rate to International Shipments

DOD officials told us that their proposal to increase carrier liability to the \$1.25 rate for international shipments was made for the same reasons it was implemented domestically (see ch. 1). They said that reducing damage to household goods shipments was important because it affected servicemember morale, quality of life, and retention rates. In addition, they said that loss and damage, and consequently, the average amount of claim, was greater for international shipments than for domestic shipments. They cited instances of careless dockside handling of shipments, said that shipment pilferage and theft was a substantial problem in several overseas regions, and stated that the \$0.60 per pound per article carrier liability rate in effect since 1967 provided little incentive for carriers to correct these problems or otherwise improve their performance. According to these officials, standardization of carrier liability would also simplify claims adjudication and recovery procedures.

The primary problem with continuing carrier liability on a per pound per article basis is that it limits carrier liability on the basis of an item's weight rather than its value. DOD officials expressed concern about the costly impact of paying servicemember claims according to an item's depreciated value or repair cost, while recovering claims costs from carriers on the basis of item weight. For example, under this liability system DOD is unable to recover reasonable repair or replacement costs for low-weight, easily damaged items such as stereos, televisions, compact disks, and other high-value items that are also frequently the targets of shipment pilferage.

Analysis of Shipment and Claims Data Supports the Need to Increase Carrier Liability

We believe that implementing the \$1.25 rate on international shipments will improve carrier performance and reduce program costs. Our evaluation of DOD domestic shipment and claims data for household goods moved during fiscal years 1986 through 1991 showed that after implementation of the \$1.25 rate, carrier performance improved and DOD's overall program and claims costs for these shipments declined (see ch. 2).

These patterns contrast with those for international shipments during the same period. At the \$0.60 per pound per article rate, international shipments experienced a gradual increase in damage and loss frequency, and incurred relatively high and generally increasing claims costs.

International Shipment Claims Frequency and Costs Are Increasing

Our analysis of DOD claims data for international shipments revealed that both the frequency of loss and/or damage to international shipments and the average amount claimed increased during fiscal years 1988 through 1991. Of the 150,345 overseas containerized household goods shipments moved by the Air Force, the Army, and the Marine Corps at the \$0.60 rate in fiscal year 1988, loss and damage claims were filed on 30,657 (20.4 percent). The claims frequency rate then increased to 22.4 percent, 23.5 percent, and 23.7 percent, respectively, during fiscal years 1989 to 1991. While this increase is a relatively moderate 3.3 percentage points for the period, it differs from the domestic claims frequency rate in that it is consistently increasing.

The average amount of claim paid for these shipments also increased overall during this period. After adjusting for inflation (converting to constant fiscal year 1993 dollars), the average amount of claim paid per hundredweight (per 100 pounds shipped) for these shipments was \$6.22 in fiscal year 1988, and \$6.39, \$6.65, and \$6.26, respectively, during fiscal years 1989 to 1991.

Low Carrier Liability Limits Recovery

At the \$0.60 rate, DOD claims cost recovery from carriers has been limited on both domestic and international shipments. For example, the Air Force paid servicemembers over \$9.4 million for claims on fiscal year 1986 domestic shipments, and recovered (at the \$0.60 rate) over \$2.8 million (29.9 percent) from carriers. Air Force recovery on fiscal year 1986 containerized international shipments at the same \$0.60 rate was substantially less—about \$1.8 million of the \$7.2 million paid for claims, or 24.9 percent. Air Force recovery at the \$0.60 rate for unaccompanied baggage shipments, which comprise several additional types of

international household goods shipments, was less still—\$367,555 of the \$1,760,212 paid for claims, or 20.9 percent.

Recovery activities for the other military services were less effective than those of the Air Force for all types of shipments during the period we reviewed. Table 3.1 shows transportation and claims costs for Air Force, Army, and Marine Corps containerized international shipments at the \$0.60 rate during fiscal years 1988 through 1991.

Table 3.1: Transportation and Claims Costs for Containerized International Household Goods Shipments, Army, Air Force, and Marines

Millions of actual dollars				
	Fiscal year			
	1988	1989	1990	1991
DOD transportation cost	\$400.0	\$368.0	\$280.6	\$404.3
Claims paid	23.9	25.4	21.2	26.2
Recoveries	-4.6	-5.3	-3.3	-5.2
Claims cost	19.3	20.1	17.9	21.0
Total cost	\$419.4	\$388.1	\$298.6	\$425.3
Percent of claim amount paid that was recovered	19.1	20.9	15.3	19.8

Note: Totals do not add due to rounding.

As shown by table 3.1, on average only about 15 percent to 21 percent of the amount of claims paid was recovered at the \$0.60 rate. Unaccompanied baggage recovery averaged only 14.7 to 17.6 percent of the claims paid during this period. We could not determine recovery rates for the Navy because its claims data is not computerized. However, MTMC officials told us that they believed Navy recovery performance was unlikely to be substantially different from the average of the other military services.

The \$0.60 rate usually results in the government bearing more than 80 percent of the costs associated with claims for shipment loss and damage on international shipments. We believe this level of carrier liability is too low to provide the necessary financial incentive to improve carrier performance. During work on a prior report,¹ carrier industry officials told us that before implementation of the \$1.25 rate for domestic shipments, carrier liability at the \$0.60 rate was so limited that claims recovery attempts were often not contested, and some carriers did not even have

¹Household Goods: Evaluation of Department of Defense Claims Payment and Recovery Activities (GAO/NSIAD-89-67, Feb. 24, 1989).

claims departments. During our current review, industry officials told us that increased liability levels and other factors have forced carriers to pay much more attention to both avoidance of shipment damage and loss and claims adjudication.²

MTMC's Proposal Would Reduce International Shipment Costs

Changing carrier liability to the \$1.25 rate as proposed by MTMC should reduce both DOD claims costs and overall program costs. Recoveries from carriers would likely increase in a fashion similar to that experienced after the adoption of this rate for domestic shipments in 1987. However, MTMC's proposal to increase carrier liability in this fashion without any type of compensatory payment or premium could unfairly shift increased claims and other costs to carriers and could cause substantial industry disruption. Implementation of this increased liability rate would therefore need to be accompanied by a compensatory payment to carriers. The amount of increased carrier costs and subsequent government savings would vary depending on the compensatory rate used and assumptions regarding the effectiveness of military service recovery activities.

Claims Costs Would Decline

Adoption of the \$1.25 rate for DOD international shipments would probably cause claims costs for these shipments to decline in much the same fashion as did domestic shipments. DOD claims officials told us that claims adjudication for international shipments is essentially the same as that for domestic shipments, except for the carrier liability rate. For example, both involve the same types of household goods, the same claims adjudication and payment process for the servicemember, and the same recovery process from carriers. We found the average amount of claim paid is higher for international shipments, but military service recovery activities are less effective on international shipments than they are on domestic shipments. The main difference occurs in the carrier liability rate, or determining how much of the amount paid is to be recovered from the carrier.

Net Program Costs Are Also Likely to Decline

Any increase in carrier liability would reduce DOD claims costs because the overall amount of DOD recoveries from carriers would then increase. However, the carrier industry maintains that low liability rates, such as the \$0.60 rate, might result in lower net program cost to the government because low liability rates would allow carriers to charge lower

²MTMC initiated the Total Quality Assurance Program in 1992, which scores carrier performance in several areas, including shipment loss and damage, and penalizes poorly performing carriers by denying them future DOD shipments for a specified period of time.

shipments, based on the available shipment and claims data and certain aspects of increased liability's impact on domestic shipments.

Carrier Performance Differs

We evaluated carrier performance data for all international household goods shipments moved by the top 50 carriers by total weight shipped during fiscal years 1989, 1990, and 1991. These carriers moved 75.2 percent of all containerized international shipments moved by DOD in fiscal year 1989, 76 percent of those moved in 1990, and 71.9 percent of those moved in 1991. We found that the average level of loss and damage to these shipments varied according to carrier.

For example, the percentage of these shipments incurring claims during these 3 fiscal years ranged from slightly under 9 percent for the best-performing carrier to over 30 percent for the worst, with the average varying between 22 percent and 24 percent for each fiscal year. The average amount of claim paid by DOD to the military servicemember also varied widely by carrier, ranging from \$580 for the best-performing carrier to more than \$1,200 for the worst, with averages ranging from \$779 to \$898.

Such variations in carrier performance contributed to our difficulty in determining a separate charge that would be fair and adequate for all carriers. A high separate charge would result in significant revenue increases for the better-performing carriers, while revenue for a low performer would be inadequate to cover costs associated with increased liability.

Expected Impact on Performance

To determine an appropriate separate charge for the \$1.25 rate, an evaluation must first be made of the rate's expected impact on the amount DOD would recover from carriers. We believe that application of the \$1.25 rate to international shipments would have a similar impact on the percentage of the amount of claims paid recovered from carriers as it did for domestic shipments. DOD claims officials told us that no differences exist between domestic and international shipments with regard to the procedures used for determining the amount of the claim to be paid to the servicemember—only the method for calculating the carrier's liability is different.

Our analysis of Air Force, Army, and Marine Corps claims data showed that application of the \$1.25 rate to domestic carrier liability caused DOD

recovery from these carriers to increase from less than 30 percent of the amount of claim paid to an average of about 65 percent. Among the services, after implementing the \$1.25 rate, only the Air Force achieved and maintained the expected recovery level of 78 percent of the amount of claims paid. We assumed a recovery effectiveness rate of 69 percent of the amount of claim paid for developing our compensatory rate estimates for overseas shipments. We chose this recovery rate rather than the 78 percent used by Project REVAL and demonstrated by the Air Force on domestic shipments because (1) it was the highest combined single-year recovery rate achieved by the services on domestic shipments under increased carrier liability during fiscal years 1988 through 1991 (see table 2.4) and (2) military service recovery for overseas shipments is less effective than for domestic shipments.

We determined that, on average, an appropriate compensatory rate could range from \$1.50 to \$2.04 per \$100 of shipment valuation,³ depending on the criteria used. For example, our computerized analysis of claims data showed that a compensatory rate of \$1.50 would result in carriers paying 37 percent of total claims costs and DOD 63 percent for a government savings of \$5.7 million per year if carriers performed like they did during fiscal years 1989 through 1991. However, at this rate, almost no carriers would have sufficient compensatory payments to cover their claims costs, and consequently would have to raise their transportation charges, improve their performance, or absorb the loss. At \$1.69, about 5 of the 50 carriers we reviewed would have sufficient revenues to cover their claims costs, carriers would pay 32 percent, and DOD 68 percent of claims costs, with DOD savings of \$4.4 million per year. At \$2.04, at least 28 percent of the carriers we reviewed would have sufficient revenues to cover claims costs, and DOD savings would average almost \$2 million per year. Table 3.2 shows the impact of these compensatory rates on DOD costs for international household goods shipments.

³This rate makes no provision for additional payment to carriers for the increased liability based on a percentage of storage in transit costs. Carrier industry officials told us that, unlike domestic agents, many foreign agents responsible for final delivery and storage of international household goods shipments are unwilling to assume any liability for shipment loss or damage. The method we used to calculate the rate was adjusted to include these payments.

Table 3.2: Impact of the \$1.25 Rate on DOD Costs at Varying Compensatory Rate Levels (Constant Fiscal Year 1993 Dollars)

Dollars in millions				
	Old \$0.60 rate	New \$1.25 rate at \$1.50 compensatory rate	New \$1.25 rate at \$1.69 compensatory rate	New \$1.25 rate at \$2.04 compensatory rate
Claims paid by DOD	\$32.5	\$32.5	\$32.5	\$32.5
Less recovery from carriers	-6.2	-22.5	-22.5	-22.5
Plus compensatory payment for increased liability	0	10.6	11.9	14.4
Total DOD claims cost	\$26.4	\$20.6	\$22	\$24.5
Percent paid by DOD	81	63	68	75
Percent paid by carriers	19	37	32	25

Note: Figures are based on average performance levels, all services, fiscal years 1989-91. Totals may not add due to rounding.

Carriers whose claims would not be fully covered by the separate charge would have to improve their performance, absorb the loss, or cover their claims costs through higher transportation rates. Carriers with continued poor performance would probably be forced to increase their transportation rates, thus becoming less competitive in obtaining contracts for the movement of DOD household goods shipments. Carrier selection for DOD business would then be more closely aligned with the cost and quality of the service rendered.

These calculations were not adjusted to give consideration to other carrier costs that could change as the result of the increased liability (such as insurance premiums and administrative costs). These costs vary by carrier and are difficult to substantiate and measure.

Impact of the Temporary \$1.80 Per Pound Per Article Rate

DOD did not implement the \$1.25 rate for international shipments in October 1993 as proposed. Instead, it increased carrier liability on these shipments on an interim basis to \$1.80 per pound per article, pending the completion of our review.

We could not evaluate the impact of the \$1.80 rate because insufficient time has passed to accumulate adequate shipment and claims data for

such an analysis. The maximum effect of this increase would be to triple recoveries from carriers since the rate itself was tripled ($3 \times \$0.60 = \1.80). However, carrier industry officials told us they expected this rate would result in recoveries being increased by a factor of 2 to 2.5 times current levels rather than tripling them. This would occur largely because the replacement or repair costs of some heavier, relatively low-cost items would be more than \$0.60 times the item weight, but less than \$1.80 times the item weight.

The \$1.80 does represent a substantial increase in carrier liability. If this rate does cause recoveries to increase by a factor of 2 to 2.5, then the amounts recovered from carriers would increase from a high of about 24 percent of the amount claimed on Air Force international shipments during fiscal years 1988 to 1991 at the \$0.60 rate, to a maximum of about 48 to 60 percent under the \$1.80 rate. By contrast, under increased liability at the \$1.25 rate (with a compensatory payment to carriers of \$1.69 per \$100 shipment valuation) we estimate carriers would be responsible for about 32 percent of shipment loss and damage costs during the 3-year introductory period if the military services improve overall recovery effectiveness to an average of 69 percent of the amount of claim paid. Removing the compensatory payment after 3 years would result in carriers then being responsible for about 69 percent of shipment loss and damage costs.

Whether the \$1.80 rate will reduce overall government costs depends on whether and to what degree carriers might increase their transportation rates to obtain additional revenue with which to pay increased claims costs. According to DOD and industry officials, transportation rates bid by the carriers did not increase with the implementation of \$1.80 per pound per article liability. However, carrier representatives told us this was due to major decreases in the steamship transportation rates paid by carriers.

Carrier Industry Opposes the Proposed Change

Carrier industry officials are generally opposed to the \$1.25 rate proposed by DOD. They believe this rate would be inappropriate for international shipments because (1) no determination has been made that the \$1.25 liability rate actually reduces program costs, (2) the international and domestic programs are so different as to prevent meaningful comparison, and (3) changing carrier liability to the \$1.25 rate would result in severe industry disruption.

First, carrier industry officials have acknowledged that increasing carrier liability would reduce DOD claims costs. But they questioned whether this would result in a reduction in overall program costs. They said that limiting carrier liability allowed carriers to keep transportation rates low, and that these lower rates might well offset any savings in claims costs. Overall government costs thus might be lower at \$0.60 per pound per article than with a higher liability rate. However, our analysis showed that overall government costs on domestic shipments were lower under increased liability (see ch. 2).

Furthermore, as noted in chapter 1, carrier industry officials told us that raising carrier liability for DOD household goods shipments was unfair because military servicemember claims for lost or damaged household goods are settled by the military services. In commercial practice, the carrier usually settles such claims directly with the owner. The carrier industry believes that military claims settlement is too generous, and results in excessive claims payments. Carrier industry officials told us that liability based on per pound per article tended to protect carriers from the high costs associated with military claims settlement, and that increased carrier liability would simply allow DOD to pass these payments on to carriers.

Under increased liability DOD still pays more than half of all claims costs. Therefore, we believe carriers are compensated for any additional claims costs resulting from military claims settlement. Furthermore, our analysis of military service claims data showed that, on average, military claims offices authorize payment for about 66 percent of the amount claimed by servicemembers. Although this may be more than would be allowed under carrier settlement, we do not believe it results in excessive claims costs for carriers.

Second, carrier industry officials told us that the risks associated with international household goods shipments are vastly different than those for domestic shipments. They said international shipments are usually in transit for much longer periods of time than domestic shipments, handled by more parties, and subjected to more loading, unloading, and other movement in transit (such as ship roll) than domestic shipments. They also said that other factors, such as limited control over shipping lines and destination agents, foreign laws and customs, and varying currency exchange rates all cause international carriers to have much less direct control over shipments for which they are liable.

We agree that risks and costs are generally higher for overseas shipments, but these costs vary between carriers and routes. Also, compensatory payments for international shipments could be set higher than those for domestic shipments (\$1.50 to \$2.04 for international shipments compared to \$0.64 plus 10 percent of storage in transit costs for domestic shipments). In any event, carriers continue to have the option to adjust their transportation rates to compensate for such costs.

Third, carrier industry officials told us that many overseas carriers would be unable to develop accurate claims cost estimates under the \$1.25 rate. Because carrier liability for overseas DOD shipments has been based on a per pound per article basis, many carriers have had no claims experience with the \$1.25 rate. This is particularly the case for carriers we interviewed that handle only DOD international shipments. Overestimation of their claims costs under the new rate might cause carriers to raise their transportation rates too much and consequently lose government traffic to competing carriers. On the other hand, underestimation could result in inadequate revenues to cover costs.

Carrier industry officials also told us that the carrier industry was overbuilt and financially stressed, that the number of DOD overseas shipments was declining, and that making major changes now in the way carrier liability is computed for international shipments could lead to many carrier bankruptcies, which in turn result in disruption of both the industry and DOD operations. They said that any increase in carrier liability for these shipments should be kept on a pound-per-article basis, and that DOD should collect and review claims at the current temporary carrier liability rate of \$1.80 per pound per article before making any changes.

We believe the payment of a compensatory rate for at least 3 years would avoid industry disruption and allow carriers adequate time to obtain sufficient claims experience under increased liability to enable adjustment of their transportation rates. After 3 years, MTMC and the military services should also have sufficient claims data to determine what level of carrier liability is desired and whether the compensatory rate should be adjusted or terminated.

Conclusions

The maximum carrier liability rate of \$0.60 per pound per article for international household goods shipments is too low. At this rate, carriers have limited incentive to improve performance, and the government bears a disproportionate percentage of household goods claims costs. The

\$1.25 rate would more fairly allocate claims costs between DOD and the carriers. However, industry disruption may occur unless this rate is accompanied by a temporary compensatory payment.

Recommendation to the Secretary of Defense

We recommend that the Secretary of Defense direct the Commander of MTMC to increase carrier liability to the \$1.25 rate on international household goods shipments after providing notice to carriers through the Federal Register. However, we also recommend that this rate be accompanied by a compensatory payment for 3 years, or until sufficient claims data is available to permit carriers to file transportation rates that will adequately compensate them for the increased risk they would assume.

Comments From the Department of Defense

DOD concurred with our findings and recommendation. Its comments indicated that the Secretary of Defense will direct MTMC to increase carrier liability on international household goods shipments made on or after October 1, 1995. MTMC subsequently notified carriers through the Federal Register, dated February 16, 1995, that as of October 1, 1995, it intended to increase carrier liability on international shipments to the \$1.25 rate with a compensatory rate of \$1.28 per \$100 of shipment valuation.

Comments From the Carrier Industry

Both the AMC and the Household Goods Forwarders Association of America, Inc. (HHGFAA), disagreed with our findings and recommendation. In commenting on this report, the AMC said that carrier liability should not be increased to the \$1.25 rate on international shipments because nothing was achieved by increasing carrier liability on domestic shipments except that liability for shipment loss and damage was transferred from DOD to the carrier. The AMC said that if the \$1.25 rate is implemented for international shipments, MTMC should pay a valuation charge (compensatory rate) of \$2.31 per \$100 of shipment valuation. It further said that if MTMC is unwilling to pay this level of compensation, then carrier liability should be returned to the \$0.60 per pound per article rate.

We believe the \$2.31 compensatory rate proposed by the AMC is too high and would provide little incentive for carriers to reduce shipment damage and loss. This rate would cause carriers to pay higher claims costs initially, but would also result in DOD reimbursing them for the added cost. The overall financial impact on both DOD and the carrier industry would thus remain unchanged. The better performing carriers would realize windfall

profits, the average carrier would break even, and only the worst performing carriers would have incentive to improve. We believe the compensatory rate should be designed to fully compensate only the better performing carriers. Other carriers would have to improve their performance, increase their transportation rates, or absorb the loss. Changing carrier liability is pointless unless it will have a significant monetary impact on both DOD and the carriers.

Woven throughout carrier industry comments is the theme that increasing carrier liability actually does little more than to transfer claims costs to the moving industry. This is exactly what DOD has attempted to do. DOD has historically borne a disproportionately large share of claims costs. Increasing carrier liability would transfer a greater portion of the costs associated with damaged and lost household goods to the industry responsible for the problem. Even under increased liability, DOD would still be paying at least 20 percent of claims costs.

The carrier industry further stated that carriers should be allowed to settle claims for loss and damage directly with servicemembers. They noted that it is common commercial practice for the carrier to settle claims directly with the shipper, and that DOD claims settlement is too generous. DOD officials told us that carriers had been allowed to settle claims directly with servicemembers in the past, but that this practice had been discontinued because DOD believed many settlements had been unfair. Carriers currently can and often do offer servicemembers cash for losses and damage at the time of shipment delivery in an attempt to avoid the DOD claims settlement and recovery process. Furthermore, adopting commercial claims settlement practices would be much more appropriate if commercial practices were also applied in selecting carriers for DOD shipments. The current process for awarding DOD business to carriers is regulated in such a way as to place more emphasis on low transportation rates and spreading DOD business over a large number of carriers than it is toward awarding more shipments to those carriers providing the best service and value for the cost.⁴ In any event, carriers can fully compensate for any increased costs associated with DOD claims settlement practices by increasing their transportation rates.

⁴Issues and recommendations regarding the selection of carriers for moving DOD shipments are addressed in *Household Goods: Competition Among Commercial Movers Serving DOD Can Be Improved* (GAO/NSIAD-90-50, Feb. 12, 1990), *DOD Commercial Transportation: Savings Possible Through Better Audit and Negotiation of Rates* (GAO/NSIAD-92-61, Dec. 27, 1991), and *Defense Transportation: Commercial Practices Offer Improvement Opportunities* (GAO/NSIAD-94-26, Nov. 26, 1993).

The HHGFAA objected to any increase in carrier liability for international shipments. It said carrier liability for these shipments should not be increased, primarily because we had not evaluated the impact of (1) the October 1993 increase in carrier liability from \$0.60 per pound per article to \$1.80 per pound per article, (2) MTMC's Total Quality Assurance Program, or (3) the High Risk Protection Program implemented by the carrier industry. The HHGFAA also said that domestic and international shipments are so different that experience with the \$1.25 rate on domestic shipments should not be used as a basis for applying this liability rate to international shipments. The HHGFAA suggested leaving the liability rate at \$1.80 per pound per article until such time that we could perform a statistical evaluation of this rate's impact on claims costs.

MTMC increased the carrier liability rate on international shipments from \$0.60 per pound per article to \$1.80 per pound per article as an interim measure pending the outcome of our study. It was intended only to give temporary relief to DOD, which had been bearing a disproportionate share of claims costs for years. As discussed in this chapter, we could not review the impact of the \$1.80 per pound per article rate because inadequate time has passed to accumulate shipment and claims data to make a meaningful analysis. We did generally discuss the potential impact of the \$1.80 rate. However, we are opposed to the retention of carrier liability based on a per pound per article rate because it results in carrier liability being based on a lost or damaged article's weight rather than its value. As stated earlier, this has the costly impact of DOD paying servicemember claims on the basis of an item's value or repair cost, while recovering from carriers on the basis of item weight. Carrier liability for high-value, low-weight items is greatly limited on the very items that tend to be easily damaged or are often the target of shipment pilferage. During this review we did do some audit work regarding MTMC's Total Quality Assurance Program and the carrier industry's High Risk Protection Program. In this chapter we acknowledged that these programs had potential for affecting claims costs. However, we could not determine whether or to what degree they actually impact these costs because both were implemented only recently and there has been inadequate time to accumulate the claims data needed for such an evaluation. Furthermore, the work we performed revealed that MTMC's Total Quality Assurance Program is being affected by several implementation problems, and that its effectiveness and appropriateness as a tool for assuring quality moves is presently unclear.

We agree with the HHGFAA that risks and costs are generally higher for international shipments than for domestic shipments. However, the

carrier, not DOD, is still responsible for loss and damage occurring while household goods are under its control, including handling by destination agents or other subcontractors used by the carrier. The carriers should build the cost of such risks into their transportation rates. Furthermore, while differences may exist with regard to the amount of carrier risk associated with domestic as opposed to international shipments, the process for adjudicating claims for loss and damage is the same. The issue is what liability rate should be applied. If DOD decides that it should assume more liability for loss and damage and the carriers less, then it should do so by lowering the \$1.25 rate to \$1.10 or some other level rather than retaining a liability system based on the weight of the items shipped instead of their value.

Problems Need to Be Addressed for Increased Liability to Be Fully Effective

Increasing carrier liability should result in reduced DOD costs and improved carrier performance. However, several problems affecting DOD's household goods programs need to be addressed for increased liability to achieve its intended effectiveness. These include the lack of shipment and claims data necessary for managing the household goods program, variances in cost recovery effectiveness among the military services, questionable performance bond and insurance collection procedures, and an unnecessarily long statutory period for filing household goods claims.

MTMC Data Is Inadequate

MTMC needs accurate household goods shipment and claims cost data to meet its responsibilities for overall household goods program management, determine cost effectiveness, and make program changes as needed. However, MTMC's household goods program database has major problems that prevent DOD officials from obtaining adequate information to effectively manage many aspects of this program.

MTMC officials do not have adequate information with which to evaluate individual carrier performance. MTMC obtains periodic reports from the military service Judge Advocates General that include data on the number and amount of claims paid for loss and damage to household goods shipments, and stores this information in computerized data banks. We compared computerized household goods claims data we obtained directly from the military service Judge Advocates General with that stored by MTMC for shipments moved during fiscal years 1986 through 1991.

We found that MTMC claims data has major omissions. For example, the MTMC database was always missing at least 28 percent of the claims paid and claims recovered data on Air Force shipments made between fiscal years 1986 and 1991, and at least 40 percent of similar data for the Army between fiscal years 1988 and 1991. MTMC officials told us that most of the similar data from the Navy and the Marine Corps had not been submitted to MTMC in fiscal years 1990 and 1991. Officials from MTMC's Traffic Management Analysis Division told us they considered MTMC's household goods claims data so unreliable as to prevent meaningful analysis.

We also found that MTMC does not track some costs essential to evaluating increased liability effectiveness. For example, in exchange for the increased liability on domestic household goods shipments, MTMC has since 1987 paid carriers a separate charge of \$0.64 per \$100 shipment valuation plus 10 percent of certain storage in transit charges. We found the MTMC database does not capture what costs are paid as a result of the

storage in transit calculation, and therefore, MTMC could not determine its total costs for the increased liability. We had to review actual shipment records stored at the General Services Administration to determine these costs. We also found numerous other technical problems with portions of MTMC's household goods database; these problems greatly limit MTMC's oversight of the program's performance characteristics and cost.

More Emphasis Is Needed on Military Service Recovery Activities

After military service claims offices adjudicate and pay servicemember claims for loss and damage on household goods shipments, the military services attempt to recover these costs from carriers up to the extent of the carrier's liability. Chapter 2 describes how military service recovery effectiveness varied under increased carrier liability on domestic shipments, with only the Air Force attaining the Project REVAL recovery goal of 78 percent of the amount of claims paid. As a result, DOD savings were about \$3.2 million less than if all the military services had performed recovery as effectively as the Air Force.

We found that recovery effectiveness varied between the services under other types of liability and shipments as well. Many of the carriers we visited told us that Air Force claims recovery was highly effective, and was attributable to its use of well-trained and knowledgeable personnel. They said the effectiveness of recovery activities performed by the other services was mixed.

Our review of household goods shipment claims data confirmed that the Air Force generally asserted and recovered a higher percentage of the amount of claim paid than did the other military services, regardless of the type of carrier liability. DOD officials told us that the nature of household goods shipments varied little between the military services and that recovery effectiveness should also be very similar. However, military claims officials told us that problems such as personnel shortages, poor coordination between claims offices, claims backlogs, specific office performance problems, and lost or misplaced payments from carriers had affected some services in the past and that these had a negative impact on their recovery effectiveness.

We believe these problems may continue to affect military service recovery activities. For example, one carrier told us that a recent review of their bank records revealed that 34 checks totaling \$6,820 sent to DOD as the result of recovery actions between 1990 and 1993 had not been cashed. The same carrier also identified 13 more payments to DOD during 1994

totaling \$1,895 that were still outstanding 2 to 4 months after check issuance.

Effective recovery of claims costs by the military services is essential for increased carrier liability to fully meet its goals of reducing claims costs and increasing carrier incentive for preventing shipment loss and damage. This is particularly the case since DOD is paying carriers an additional separate charge in exchange for the increased liability on domestic shipments, and may do so on future overseas shipments. DOD therefore needs to place increased emphasis on recovery activities in order to achieve and maintain levels closer to those demonstrated by the Air Force.

Carrier Bonding and Insurance Needs to Be Reviewed

MTMC requires carriers to purchase cargo insurance before giving them approval to move DOD domestic household goods shipments, and both cargo insurance and performance bonds are required for approval to move DOD international shipments. DOD thus protects itself from losses and costs that might occur if a carrier goes bankrupt and does not complete a move as contracted, or completes the move and receives payment, but leaves claims for damage unresolved. Increased carrier liability and other facets of MTMC's household goods programs are increasing the level of government funds at risk. However, past government actions to recover the cost of losses associated with carrier bankruptcies have often been inadequate. To ensure that the savings potential of increased liability is fully realized, we believe DOD needs to (1) place increased emphasis on bond and insurance collection from carriers and (2) review carrier bonding and insurance requirements.

Increased Carrier Liability Increases Funds at Risk

In chapter 2, we described how carriers are subject to potentially greater DOD claims costs under increased liability. DOD pays carrier transportation charges after shipment delivery. Most recoveries are made within about 2 years of shipment delivery, but military claims offices sometimes incur claims backlogs. By statute, servicemembers have 2 years in which to file claims against the government, and DOD has 6 years from shipment delivery to initiate recovery from carriers. More government funds are at risk under increased liability because (1) more is potentially recoverable and (2) carriers are also paid a separate charge for the increased liability shortly after shipment delivery.

Past Recoveries of Bankruptcy Losses Have Been Inadequate

Although at least 61 carriers approved to move DOD shipments have declared bankruptcy or ceased to exist since 1980, government actions to recover costs incurred as a result of these bankruptcies and terminations have so far been inadequate. According to MTMC officials, the government sought reimbursement under only one performance bond—collecting \$17,215 of the \$36,014 owed by a bankrupt carrier in late 1993.

MTMC officials told us that bond collections had never been effective, primarily because MTMC and the General Services Administration, which jointly shared collection responsibility, never established workable collection procedures. We could not determine the extent of funds lost. MTMC officials told us efforts were underway to improve bond collections and that MTMC would be solely responsible for its own bond collections in the future. Two additional bond collection attempts had been initiated, but none completed, by the time we concluded our review in November 1994.

MTMC Insurance and Bonding Requirements Need Review

In addition to the increased liability, other factors arising from the highly competitive nature of the household goods carrier industry are increasing DOD's financial risk, particularly on international shipments.

First, both MTMC and industry officials told us that there are too many carriers competing for a decreasing amount of DOD household goods movement business. As of 1993, there were 1,227 domestic and 147 overseas carriers approved by MTMC for moving DOD household goods shipments. Declining levels of DOD shipments is increasing carrier competition, and forcing many carriers into a weak financial condition. Carrier industry officials told us that since claims may not be addressed until several years after a shipment is completed, many carriers do not set aside sufficient funding to cover claims, instead expecting to cover these costs out of their cash flow from new shipments. Declining shipment levels increase the likelihood of some carriers being forced into bankruptcy. Furthermore, we noted that many overseas carriers rely on winning DOD shipment contracts since they have no commercial household goods shipment business.

Second, both carrier industry and MTMC officials acknowledged a growing tendency for some carriers to adopt a business strategy of going out of business. Some carriers have bid unusually low rates to win DOD business, received payment for moving a number of shipments, and then declared bankruptcy, leaving a large unpaid claims liability. Some of these carriers

then reenter the business under a new carrier name, and apply for new MTMC carrier approval.

Many of the carrier industry officials we interviewed told us they believed MTMC carrier approval requirements were too lax. MTMC officials acknowledged they rely heavily on bonding and insurance companies to evaluate the financial suitability of carriers before approving them for DOD shipments. Both MTMC and carrier industry officials told us that some disreputable carriers were taking advantage of weak MTMC approval and collection processes to employ business strategies of going out of business. They said that the low rates bid by such companies were making it difficult for reputable carriers to stay in business.

This problem is exacerbated by MTMC's provision of an incentive to the low-bidding carrier of as much as 30 percent to 50 percent of the traffic on international routes. This incentive is designed to reduce DOD transportation costs through increased carrier competition, and to reward the carrier bidding the lowest rate. However, DOD must ensure that adequate bonding and insurance levels and collection procedures are in place to cover shipment and liability costs in the event of carrier bankruptcy. Otherwise, the government is vulnerable to significant financial losses. For example, one carrier underbid all others on many routes for several years. At one point, this carrier was moving more than a fourth of all DOD overseas household goods shipments. According to DOD officials, this carrier then went bankrupt, leaving about \$7 million in outstanding claims liabilities. DOD and insurance companies are presently involved in legal action regarding this matter, and DOD has not yet recovered any of these funds.

Statute of Limitations Appears Needlessly Long

Under the provisions of 31 U.S.C. 3721, federal employees have 2 years to file claims for loss and damage to personal property, including household goods. Prior to 1952, the statutory period was 1 year. The period was extended to 2 years to achieve consistency with other claims statutes.

The 2-year period for filing household goods claims appears needlessly long. As discussed in our 1989 report on DOD household goods claims payment and recovery activities, the 2-year period contributes to claims management and adjudication problems, prevents carriers from making timely adjustments to their transportation rates, and causes increased government costs. Making timely adjustments to transportation rates will be even more important to carriers under increased carrier liability. Nearly

all the carriers we visited said the statute needed to be shortened to a year or less. They told us that by contrast, claims on commercial shipments must be filed within 9 months of shipment delivery. DOD claims officials generally acknowledged that claims requiring more than 1 year to file usually involved servicemember procrastination.

We analyzed Army and Air Force claims data for fiscal years 1988 through 1991 to determine the average amount of time required between shipment delivery and the filing of claims. We found that in each fiscal year, more than 60 percent of all claims filed were filed within 6 months of shipment delivery, and over 80 percent within 1 year of shipment delivery. For example, table 4.1 shows the amount of time in months between shipment delivery and claims filing for combined domestic and international household goods claims for the Air Force, Army, and Marine Corps in fiscal year 1991.

Table 4.1: Rate of Household Goods Claims Filings, Fiscal Year 1991

Months	Filings	Percent	Cumulative filings	Cumulative percent
3	23,310	35.6	23,310	35.6
6	19,133	29.2	42,443	64.9
9	8,578	13.1	51,021	78.0
12	5,107	7.7	56,128	85.8
15	3,228	4.9	59,356	90.7
18	2,095	3.2	61,451	93.9
21	1,556	2.4	63,007	96.3
24	1,253	1.9	64,260	98.2
over 24	1,173	1.8	65,433	100.0

DOD officials told us that the 2-year statute of limitations encourages some servicemembers to take longer than necessary to file their claims. This tends to increase the already long gaps between the time household goods shipments occur and the time claims data for evaluating costs and carrier performance is available. Claims processing and recovery by the military services often takes an additional 5 months or longer. Both DOD claims officials and carriers told us that long delays in filing household goods claims can result in claims settlement or recovery problems.

Unnecessary delays in filing claims also exacerbate carriers' problems in obtaining the claims recovery cost information they need to adjust their rates in a timely fashion. MTMC requires household goods carriers to bid on transportation rates for contracts to transport DOD household goods

shipments 6 months prior to the beginning of the 6-month period these rates will be in effect. Increased carrier liability is resulting in increased carrier costs and consequently a greater need for timely adjustment of rates.

As discussed in our 1989 report, delays in filing household goods claims increase government costs. Late-filed claims are generally more difficult to process and consequently increase administrative costs. DOD also cannot conduct recovery activities and reuse the funds thus obtained until servicemember claims are filed and processed. The availability of these funds and the amount of interest cost to the government thus depend largely on the amount of time required for servicemembers to file their claims. We therefore believe that this statute—insofar as it pertains to household goods claims—should now be changed to allow a maximum of 1 year for filing household goods claims. A draft of the proposed statutory changes is included in appendix IV.

Conclusions

Increased carrier liability for loss and damage on household goods shipments increases the amount of money recoverable from carriers and consequently increases the importance of DOD activities and procedures designed to facilitate recoveries from carriers. DOD needs to address problems regarding household goods shipment claims data, reduce variances in military service recovery effectiveness, and review carrier bond and insurance levels and collection procedures in order to fully realize the savings potential offered by increased carrier liability. Increases in the amount of money recoverable from carriers also makes timely recovery of these funds even more essential so as to reduce government costs and enable carriers to adjust transportation rates on a more timely basis.

Recommendations to the Secretary of Defense

We recommend that the Secretary of Defense take the following actions:

- Direct the Commander of MTMC to (1) correct inaccuracies in the MTMC household goods program database regarding claims payments and recoveries and (2) develop the procedures required to determine overall household goods program costs.
- Direct the military services to periodically report complete household goods claims and recovery data to MTMC.
- Direct the Secretaries of the Army and the Navy to increase the emphasis placed on household goods claims recovery so as to increase these

military services' recovery effectiveness to approximately the level demonstrated by the Air Force.

- Direct the Commander of MTMC to review household goods program carrier bonding and insurance requirements and collection procedures to ensure that these are adequate to protect government interests under increased carrier liability.

Matter for Congressional Consideration

We continue to believe that shortening the statute of limitations for filing claims for loss and damage to household goods shipments would facilitate claims adjudication, enable more timely carrier adjustments to transportation rates, and reduce government costs without imposing undue hardship on military servicemembers or civilian employees. Therefore, we again recommend that the statute—insofar as it pertains to household goods claims—be changed to limit the time allowable for filing claims to 1 year after the claim accrues.

Comments From the Department of Defense

DOD concurred with our findings and recommendations to them. Subsequent to our fieldwork, MTMC began working with the military services to improve the completeness of its claims database. The Office of the Secretary of Defense will direct the Commander, MTMC, to ensure that all required program data is included in its database, and to review household goods program carrier bonding and insurance requirements and collection procedures. MTMC also began a DOD Personal Property reengineering process designed to develop a program that is simpler to administer, reduces the workload on transportation officers, and provides the servicemember a full-service commercial-quality move. All the issues discussed in our report will be addressed by this effort, which MTMC expects to complete by September 30, 1995. DOD's comments also stated that the Office of the Secretary of Defense will direct the military services to ensure that all required claims data is provided to MTMC and will address the need for the services to emphasize claims recovery actions.

DOD did not concur with our recommendation that the Congress consider shortening the statute of limitations for filing household goods claims for loss and damage to 1 year. DOD supported this proposal when it was originally recommended in our 1989 report. However, it now believes this statute should not be shortened (1) so as to maintain consistency with other claims statutes with a 2-year statute of limitations and (2) because it believes some servicemembers on long operational deployments or overseas assignments might have difficulty filing claims within a 1-year

period, thus negatively impacting quality of life issues that DOD is working to enhance.

Although a 1-year statute for filing household goods claims would create an inconsistency with the 2-year period allowed for other types of claims, we believe several unique factors affecting DOD household goods claims settlement warrant the exception. First, the period allowed for filing claims on DOD shipments is much longer than the 9-months maximum allowed for commercial shipments. Second, DOD currently requires servicemembers to report any damage to shipments within 75 days of delivery. We believe that servicemembers should reasonably be able to complete the process for filing a claim in the remaining 9-1/2 months of the 1 year statutory period. Third, we believe that since increased liability will increase carrier claims costs and thus affect the transportation rates bid by carriers, fairness dictates that claims resolution be performed as quickly as practical.

Regarding claims filing difficulties caused by long deployments and overseas assignments, we believe that military regulations implementing the law permit DOD to provide relief in those rare instances when the servicemember cannot reasonably file a claim in a timely manner. As shown by table 4.1, about 85 percent of DOD claims are presently filed within 1 year of shipment delivery, and DOD officials generally acknowledged that most claims requiring more than 1 year to file involved servicemember procrastination.

Comments From the Carrier Industry

Both the AMC and the HHGFAA concurred that the statute of limitations for filing household goods claims should be shortened. However, the HHGFAA suggested shortening this statute to 9 months instead of 1 year so as to be consistent with industry practices for filing claims on commercial shipments. We believe a period of 1 year for filing claims is more reasonable, considering the operational deployments and overseas assignments cited in DOD's comments.

The HHGFAA stated that it disagreed with our proposal that performance bonds and cargo insurance for DOD household goods shipments be increased. It also said that performance bonds do not cover the payment of loss and damage claims, only those costs incurred by DOD for the onward movement of shipments stranded as the result of carrier bankruptcy.

Our report did not specifically recommend that cargo insurance and performance bonding levels be increased. It did recommend that MTMC review carrier bonding and insurance requirements to enable the recovery of any losses caused by carrier bankruptcies. We believe MTMC should review both the types and levels of carrier bonding and insurance requirements because of the increased government risk associated with increased carrier liability, the business strategies of going out of business being employed by some carriers, and questions regarding the adequacy of carrier capitalization. We did not make more specific recommendations in this area because MTMC acknowledged these problems and now has actions underway designed to identify and implement the specific changes needed.

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000



07 FEB 1995

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Hinton:

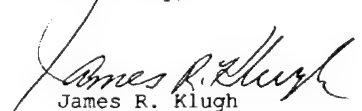
This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DOD HOUSEHOLD GOODS: Increased Carrier Liability for Loss and Damage Is Warranted," dated December 12, 1994 (GAO Code 703016), OSD Case 9828. The DoD generally concurs with the GAO findings and recommendations, but nonconcurs with the GAO matter for congressional consideration.

The DoD agrees that household goods claims costs have declined and carrier performance has improved since the valuation system for domestic shipments was adopted by the Military Traffic Management Command in 1987. The DoD also agrees that carrier liability for international goods shipments needs to be increased and that management and administrative improvements to the household goods program are needed. Direction will soon be issued that will achieve those improvements.

The DoD, however, does not agree with the GAO suggestion that the Congress shorten the statute of limitations to one year for filing household goods claims. There are frequently real and valid reasons--such as overseas deployment--that could preclude a Service member from filing claims for lost or damaged household goods shipments within a one year period. Shortening the time for filing claims would likely be perceived as an erosion of benefits by Service members.

The detailed DoD comments on the draft report findings, recommendations, and the matter for congressional consideration are provided in the Enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,


James R. Klugh
Deputy Under Secretary
of Defense (Logistics)

Enclosure



GAO DRAFT REPORT - DATED DECEMBER 12, 1994
(GAO CODE 703016) OSD CASE 9828

"DOD HOUSEHOLD GOODS: INCREASED CARRIER LIABILITY
FOR LOSS AND DAMAGE IS WARRANTED"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- o **FINDING A: Service Member Claims for Household Goods Shipment Loss or Damage.** The GAO reported that the DoD spends more than \$700 million each year to move household goods of Military Service members. The GAO noted that the DoD shares liability with carriers for loss and damage affecting those shipments. The GAO further noted that, during mid-1987, the DoD--through the Military Traffic Management Command (MTMC)--increased carrier liability for domestic household goods shipments, a change that the carrier industry opposed. The GAO also noted that, in March 1993, the MTMC proposed that carrier liability be similarly increased for international household goods shipments, a change also objected to by carriers.

The GAO reported that the DoD settles Service member claims for household goods shipment loss or damage directly with the Service member. The GAO noted that Service members generally receive the full depreciated value or repair cost, whichever is less, for all approved claims up to a maximum of \$40,000 per shipment for both domestic and international shipments. The GAO added that the DoD then attempts recovery from the carrier up to the extent of the carrier's liability.

The GAO reported that, from 1967 to early 1987, carriers handling military household goods movements were liable for damage or loss at the rate of \$.60 per pound per article for both domestic and international shipments. The GAO further reported that, under the valuation system the MTMC adopted in 1987 for domestic shipments, the carrier is liable for the full depreciated value of damaged or lost articles up to a maximum amount per shipment; the maximum amount is no more than the shipment weight multiplied by \$1.25 per pound. The GAO noted that carrier liability under this system is generally increased because it is no longer computed on a weight per article basis. The GAO also noted that, in return, the DoD agreed to pay a compensatory fee to carriers (in addition to transportation charges).

The GAO pointed out that in a 1988 report (OSD Case 7385), it reviewed the proposed MTMC increase in carrier liability and determined that the separate charge would provide sufficient revenue to compensate only the better performing carriers for their increased liability costs. The GAO concluded at that time that the increased liability pro-

gram should remain in effect until carrier performance data or additional cost information indicated that changes were needed.

The GAO reported that, in March 1993, the MTMC informed the carrier industry that in October 1993 it intended to implement similarly increased carrier liability for the DoD international household goods shipments. The GAO explained that adoption of the \$1.25 rate for those shipments was deferred because of carrier resistance. The GAO noted, however, in October 1993 the MTMC increased carrier liability on international household goods shipments on an interim basis to \$1.80 per pound per article, pending the completion of the GAO review. (pp. 2-3, 12-16/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING B: The DoD Claims Costs Declined.** The GAO determined that the DoD claims costs for domestic household goods shipments declined after maximum carrier liability on the shipments was increased in 1987, from \$.60 per pound per article to the \$1.25 valuation rate. The GAO noted, for example, that its analysis of Air Force computerized household goods shipment and claims data showed that the Air Force reduced annual domestic shipment claims costs during FY 1988 through FY 1991 by 20 to 27 percent, compared to the FY 1986 level. The GAO concluded that resulted in savings on Air Force shipments totaling about \$7 million for the period.

The GAO reported, however, that it could not determine overall DoD savings with the same accuracy as it could for the Air Force, because Army and Marine Corps claims records were not computerized until 1988, and Navy claims records still had not been computerized at the time of the review. The GAO pointed out, however, that review of the available data showed that claims costs for the other Services also declined. The GAO concluded that increased carrier liability resulted in overall DoD savings totaling about \$18.9 million during FY 1987 through FY 1991. The GAO depicted the results of its analyses in Tables 2.1 through 2.4 in the draft report. (pp. 19-27/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING C: Carrier Industry Concerns Did Not Materialize.** The GAO reported that, in commenting on the March 1988 GAO report (OSD Case 7385), carrier industry officials objected to the DoD implementation of the increased liability program in part because they believed the DoD recovery rate would increase to as much as 95 percent. The GAO noted that, at that rate, almost all claims costs would be passed to carriers. The GAO pointed out, as shown in Table 2.4, that did not occur. The GAO found that instead--because of varying Service recovery effectiveness--actual carrier

claims costs were lower than predicted by Project REVAL (which estimated that under the increased liability, the DoD recovery from carriers would average 78 percent of the amount of claims paid to Service members), and far lower than carrier estimates.

The GAO reported that increased carrier liability does transfer a greater portion of claims costs to carriers, but the DoD still pays more than half of household goods claims costs. The GAO pointed out that, under the \$1.25 rate after FY 1987, Air Force recovery from carriers on domestic shipments increased to an average of 77 percent of the amount of claims paid, but carriers also received payments for the additional liability through separate charges. The GAO also pointed out that, consequently, under increased liability during FY 1988 through FY 1991, the carriers actually paid a maximum of 46 percent of Air Force claims costs.

The GAO reported that carrier industry representatives advised that, even if the DoD claims costs declined under the \$1.25 rate, overall DoD costs might still have increased over the levels experienced under the \$.60 per pound per article rate if carriers had increased their transportation rates to compensate for the increased liability. However, the GAO found that the DoD household goods program net costs for domestic shipments (transportation costs plus claims costs less recoveries) also declined after the \$1.25 rate was adopted in 1987. The GAO pointed out that Table 2.5 illustrates how program costs declined from the level experienced before increased carrier liability was implemented in 1987.

The GAO reported that declining program costs cannot be attributed solely to increased carrier liability. The GAO explained that transportation rates are influenced by many factors other than claims costs, such as insurance, competition, and individual carrier costs related to personnel, equipment, and facilities.

The GAO reported that its analysis of DoD claims data by individual carrier confirmed that many carriers, especially those with high rates of loss and damage, were encountering claims costs higher than the compensatory revenues they received for the increased liability. The GAO observed that those carriers could have compensated by raising their transportation rates; but instead, many of the carriers had chosen to absorb the costs. The GAO concluded that both intense carrier competition and increased carrier liability, therefore, appear to have contributed to lowered DoD net program costs.

The GAO reported that it could not determine to what extent lowered net program cost was due to reduced claims costs versus other factors. The GAO pointed out that those other factors vary between carriers and are difficult to measure. The GAO concluded, however, it is clear that net domestic program costs declined after the DoD implemented increased

Now on pp. 4 and 25-26.

carrier liability, and that reduced claims costs contributed to that decline. (pp. 4-5, pp. 27-29/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING D: Claims Frequency Unchanged, But Average Amount of Claims Declined.** The GAO reported that one of the DoD objectives in increasing carrier liability was to increase carrier incentive to prevent loss and damage to household goods. The GAO found that while the percentage of domestic household goods shipments incurring Service member claims changed very little under increased carrier liability, the average amount of claim paid declined. The GAO reported that its analysis of Air Force shipment and claims data showed that claims were paid on 20.6 percent of the Air Force domestic shipments under the \$0.60 rate in FY 1986. The GAO found that after the \$1.25 rate was implemented in 1987, the Air Force claims frequency rate showed little change, ranging from 19.2 to 22.7 percent between FYs 1987 and 1991. On the other hand, the GAO analysis reflected that the combined Army, Air Force, and Marine Corps claims frequency rate was similar, ranging from 18.3 percent to 21.7 percent during the period.

The GAO reported that the average amount of claim paid the Service member declined under increased liability. The GAO explained that--expressed in constant FY 1993 dollars in order to adjust for the effects of inflation--the average amount of claim paid by the Air Force dropped from \$821 in FY 1986, to \$637 by FY 1991, and similar trends appear to have occurred for the Army and Marine Corps claims, as illustrated in Table 2.6.

The GAO reported that carrier industry officials advised that increased liability had provided an increased incentive to improve performance, and several of the carriers visited cited a variety of actions they had taken to reduce their claims costs. The GAO concluded that, although such improvements do not appear to have had an appreciable impact on claims frequency, they are likely to have been a significant factor in reducing the extent of the damage occurring on shipments with claims. The GAO further concluded that this, in turn, has contributed to reductions in claims costs to both carriers and the DoD.

The GAO concluded that the MTMC should now eliminate the separate charge paid carriers for the increased liability on domestic shipments. The GAO pointed out that carriers have had 7 years of claims cost experience under increased liability and, therefore, should now be able to compensate for the loss of the separate charge by adjusting their transportation rates. The GAO also concluded that, because none of the Military Services recovered more than an average of 80 percent of the amount of claims paid in any of the fiscal years reviewed (see Table 2.4 in the draft report), the DoD would still absorb at least 20 percent of household goods claims costs. In addition, the GAO concluded that

the DoD should bear some responsibility for claims costs, since the DoD, rather than carriers, settles the Service member claims.

Overall, the GAO concluded the expectations for increased liability set by the DoD have been achieved, in part. In addition, the GAO concluded the increased carrier liability at the \$1.25 rate was fair and equitable to both the DoD and the carrier industry. The GAO pointed out that carriers have now gained experience with increased liability claims costs and should be able to build those costs into their transportation rates. The GAO concluded, therefore, that the MTMC should eliminate the separate charge paid carriers for the increased liability on domestic shipments. (pp. 4-5, pp. 30-31/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING E: The DoD Proposes Extending the \$1.25 Carrier Liability Rate to International Shipments.** The GAO reported that the DoD proposal to increase carrier liability to the \$1.25 rate for international shipments was made for the same reasons it was implemented domestically. The GAO explained that DoD officials said that reducing damage to household goods shipments was important because it affected Service member morale, quality of life, and retention rates. The GAO further explained that those officials also said that loss and damage, and consequently the average amount of claim, was greater for international shipments than for domestic shipments because of exposure to sea water, careless dockside handling, and shipment pilferage/theft problems. The GAO noted that the officials indicated the \$0.60 per pound per article carrier liability rate in effect since 1967 provided little incentive for carriers to correct those problems or otherwise improve their performance. The GAO concluded that standardization of carrier liability would also simplify claims adjudication and recovery procedures.

The GAO reported that the primary problem with continuing carrier liability on a per pound per article basis is that it limits carrier liability on the basis of an item's weight, rather than its value. The GAO noted that the DoD officials expressed concern about the costly impact of paying Service member claims according to an item's depreciated value or repair cost, while recovering claims costs from carriers on the basis of item weight. (p. 5, pp. 33-34/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING F: Analysis of Shipment and Claims Data Supports the Need to Increase Carrier Liability.** The GAO concluded that implementing the \$1.25 rate on international shipments will improve carrier performance and reduce program costs. According to the GAO, its evaluation of DoD domestic

shipment and claims data for household goods moved during FY 1986 through FY 1991 showed that after implementation of the \$1.25 rate, carrier performance improved and the overall DoD program and claims costs for the shipments declined. The GAO reported that the patterns contrast with those for international shipments during the same period. The GAO pointed out that, at the \$0.60 per pound per article rate, international shipments experienced a gradual increase in damage and loss frequency, and incurred relatively high and generally increasing claims costs.

The GAO reported that its analysis of DoD claims data for international shipments revealed that both the frequency of loss and/or damage to international shipments and the average amount claimed increased during FY 1988 through FY 1991. The GAO also reported that, at the \$0.60 rate, the DoD claims cost recovery from carriers has been limited on both domestic and international shipments. The GAO presented data in Table 3.1 indicating that, on average, only about 15 percent to 21 percent of the amount of claims paid was recovered at the \$.60 rate.

The GAO pointed out that the \$0.60 rate usually results in the Government bearing more than 80 percent of the costs associated with claims for shipment loss and damage on international shipments. The GAO concluded that this level of carrier liability is too low to provide the necessary financial incentive to improve carrier performance. The GAO pointed out that, during its work on a prior February 1989 report (OSD Case 7735), carrier industry officials advised that before implementation of the \$1.25 rate for domestic shipments, carrier liability at the \$0.60 rate was so limited that claims recovery attempts were often not contested, and some carriers did not even have claims departments. The GAO further pointed out that, during the current review, industry officials stated that increased liability levels and other factors have forced carriers to pay much more attention to both avoidance of shipment damage and loss and claims adjudication. (p. 5, pp. 34-37/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING G: The MTMC Proposal Would Reduce International Shipment Costs.** The GAO observed that changing carrier liability to the \$1.25 rate, as proposed by the MTMC, should reduce both DoD claims costs and overall program costs. The GAO concluded that recoveries from carriers would likely increase in a fashion similar to that experienced after the adoption of that rate for domestic shipments in 1987. The GAO noted, however, that the MTMC proposal to increase carrier liability in that fashion, without any type of compensatory payment or premium, could unfairly shift increased claims and other costs to carriers and could cause substantial industry disruption. The GAO determined that implementation of the increased liability rate would, therefore, need to be accompanied by a compensatory payment

to carriers. The GAO noted that the amount of increased carrier costs and subsequent Government savings would vary, depending on the compensatory rate used and assumptions regarding the effectiveness of Military Service recovery activities.

The GAO concluded that adoption of the \$1.25 rate for DoD international shipments would probably cause claims costs for those shipments to decline in much the same fashion as did domestic shipments. The GAO added that DoD claims officials stated that claims adjudication for international shipments is essentially the same as that for domestic shipments, except for the carrier liability rate. The GAO found the average amount of claim paid is higher for international shipments, but Military Service recovery activities are less effective on international shipments than they are on domestic shipments. The GAO pointed out that the main difference occurs in the carrier liability rate, or determining how much of the amount paid is to be recovered from the carrier.

The GAO reported that any increase in carrier liability would reduce DoD claims costs because the overall amount of DoD recoveries from carriers would then increase. The GAO pointed out, however, the carrier industry maintains that low liability rates, such as the \$0.60 rate, might result in lower net program cost to the Government, because low liability rates would allow carriers to charge lower transportation rates, which would more than offset the high DoD claims payment costs associated with that rate. The GAO further pointed out that carrier industry representatives said that increased carrier liability might not reduce net program costs because carriers would be forced to increase transportation rates to cover their increased liability costs.

The GAO reported that DoD and carrier industry officials stated that domestic shipment transportation rates have not increased substantially since 1987, because the carrier industry is overbuilt and competition for DoD business is fierce. The GAO noted that those officials said that is partially due to recent reductions in both the size of the U.S. military and the number of personnel stationed overseas. In addition, the GAO pointed out that some carrier industry officials stated that domestic carriers absorbed a portion of the additional costs associated with increased liability, rather than becoming less competitive for DoD business through increased transportation rates. The GAO indicated that it could not determine what might happen to international transportation rates under the \$1.25 liability rate, because many factors other than liability could have an impact on the rates.

The GAO cautioned that implementation of the \$1.25 rate for international shipments could result in carrier industry disruption if it is not accompanied by additional payments to carriers in compensation for the increased liability. The GAO noted that the MTMC did not make provision for a

compensatory rate when it proposed the \$1.25 rate for international shipments. The GAO pointed out that many of the carriers interviewed, particularly the forwarders, stated they would have difficulty adjusting their international shipment transportation rates to cover the cost of their increased liability.

The GAO concluded that it is a normal business practice for the carrier industry to estimate its costs and determine its transportation charges to provide whatever service is needed by the DoD. The GAO also concluded, however, that the DoD should compensate carriers in exchange for their added risk. The GAO pointed out that compensatory payments would provide a financial buffer during the period when carriers were adjusting to the new liability rate, thus reducing the potential for carrier bankruptcies and subsequent stranding of en route shipments.

The GAO pointed out that adequate claims data to evaluate the impact of increased liability on international shipments should be available within 2 to 3 years from the implementation date. The GAO explained that, by then, carriers will have had adequate claims experience under the new rate to accurately estimate their claims and other costs associated with the increased liability and should be fully capable of adjusting their transportation rates as needed. In addition, the GAO noted that the MTMC could then evaluate the impact of the increased liability and determine whether to continue compensatory payments to carriers. (pp. 5-6, pp. 37-40/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING H: Determining a Fair and Adequate Separate Charge is Difficult.** The GAO reported that it could not, with certainty, determine a fair and adequate separate charge to compensate carriers for their increased liability, for two reasons: (1) because carrier performance levels vary, establishing a single separate charge that is fair and adequate for overseas carriers requires policy judgments about the appropriate performance level to be expected from carriers, and (2) the impact of the proposed increase on carrier performance, and consequently on the number and amount of claims submitted by Service members, cannot be accurately predicted. The GAO reported that it did, however, develop an expected impact of increased liability on international shipments, based on the available shipment and claims data and certain aspects of increased liability's impact on domestic shipments.

The GAO evaluated carrier performance data for all international household goods shipments moved by the top 50 carriers by total weight shipped during FYs 1989, 1990, and 1991. The GAO noted that those carriers moved 75.2 percent by weight of all containerized international shipments moved by the DoD in FY 1989, 76 percent of those moved in 1990, and 69.2 percent of

those moved in 1991. The GAO found that the average level of loss and damage to the shipments varied according to carrier. The GAO indicated that such variations in carrier performance contributed to the difficulty in determining a separate charge that would be fair and adequate for all carriers.

The GAO concluded that, to determine an appropriate separate charge for the \$1.25 rate, an evaluation must first be made of the rate's expected impact on the amount the DoD would recover from carriers. The GAO further concluded that application of the \$1.25 rate to international shipments would have a similar impact on the percentage of the amount of claims paid recovered from carriers as it did for domestic shipments. The GAO pointed out that DoD claims officials stated that no differences exist between domestic and international shipments with regard to the procedures used for determining the amount of the claim to be paid to the Service member--only the method for calculating the carrier's liability is different.

The GAO determined that, on average, an appropriate compensatory rate could range from \$1.50 to \$2.04 per \$100 of shipment valuation, depending on the criteria used. The GAO noted, for example, the computerized analysis of claims data showed that a compensatory rate of \$1.50 would result in carriers paying 36 percent of total claims costs and the DoD 64 percent for Government savings of \$5.5 million, if carriers performed like they did during FY 1989 through FY 1991. The GAO further noted, however--at that rate--no carriers would have sufficient compensatory payments to cover their claims costs, and consequently would have to raise their transportation charges, improve their performance, or absorb the loss. The GAO illustrated the impact of the compensatory rates on DoD costs for international household goods shipments in Table 3.2. (pp. 5-6, pp. 40-44/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING I: Impact of the Temporary \$1.80 Per Pound Per Article Rate.** The GAO reported that the DoD did not implement the \$1.25 rate for international shipments in October 1993, as proposed. The GAO noted that, instead, the DoD increased carrier liability on the shipments on an interim basis to \$1.80 per pound per article, pending the completion of the GAO review.

The GAO added that it could not evaluate the impact of the \$1.80 rate because insufficient time has passed to accumulate adequate shipment and claims data. The GAO concluded that the maximum effect of the increase would be

to triple recoveries from carriers, since the rate itself was tripled (3 X \$0.60 = \$1.80). The GAO noted, however, that most of the carrier industry officials interviewed stated they expected the rate would result in recoveries being increased by a factor of 2 to 2.5 times current levels, rather than tripling them. The GAO explained that would occur largely because the replacement or repair costs of some heavier, relatively low-cost items would be more than \$0.60 times the item weight, but less than \$1.80 times the item weight.

The GAO observed that the \$1.80 does represent a substantial increase in carrier liability. The GAO pointed out that, if that rate does cause recoveries to increase by a factor of 2 to 2.5, then the amounts recovered from carriers would increase from an average of 24 percent of the amount claimed on international shipments during FYs 1988 to 1991 at the \$.60 rate, to about 48 to 60 percent under the \$1.80 rate. The GAO further noted that, by contrast, under increased liability at the \$1.25 rate (with a compensatory payment to carriers of \$1.69 per \$100 shipment valuation) carriers would be responsible for about 32 percent of shipment loss and damage costs during the 3-year introductory period, if the Military Services improve overall recovery effectiveness to an average of 69 percent of the amount of claim paid. The GAO concluded that removing the compensatory payment after 3 years would result in carriers then being responsible for about 69 percent of shipment loss and damage costs. The GAO further concluded that, whether the \$1.80 rate will reduce overall Government costs depends on whether and to what degree carriers might increase their transportation rates to obtain additional revenue with which to pay increased claims costs. (pp. 5-6, pp. 44-45/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING J: Carrier Industry Opposes the Proposed Change.**
The GAO reported that carrier industry officials are generally opposed to the \$1.25 rate proposed by the DoD. The GAO explained that those officials believe the rate would be inappropriate for international shipments because (1) no determination has been made that the \$1.25 liability rate actually reduces program costs, (2) the international and domestic programs are so different as to prevent meaningful comparison, and (3) changing carrier liability to the \$1.25 rate would result in severe industry disruption.

The GAO explained that carrier industry officials have acknowledged that increasing carrier liability would reduce DoD claims costs, but they questioned whether this would result in a reduction in overall program costs. The GAO reported that the officials said that limiting carrier liability allowed carriers to keep transportation rates low, and that those lower rates might well offset any savings in

claims costs. The GAO concluded that, overall Government costs thus might be lower at \$.60 per pound per article than with a higher liability rate.

The GAO reported that carrier industry officials also stated the risks associated with international household goods shipments are vastly different than those for domestic shipments. The GAO explained that the officials indicated the international shipments are usually in transit for much longer periods of time than domestic shipments, handled by more parties, and subjected to more loading, unloading, and other movement in transit (such as ship roll) than domestic shipments. In addition, the GAO noted that the officials cited other factors, such as limited control over shipping lines and destination agents, foreign laws and customs, and varying currency exchange rates, as causing international carriers to have much less direct control over shipments for which they are liable. The GAO acknowledged that risks and costs are generally higher for overseas shipments, but pointed out the costs vary between carriers and routes. The GAO observed that compensatory payments for international shipments could be set higher than those for domestic shipments (\$1.50 to \$2.04 for international shipments compared to \$0.64 plus 10 percent of storage in transit costs for domestic shipments), but noted that in any event, carriers can always adjust their transportation rates to compensate for such costs.

The GAO reported that carrier industry officials also said many overseas carriers would be unable to develop accurate claims cost estimates under the \$1.25 rate. The GAO noted that, because carrier liability for overseas DoD shipments has always been based on a per pound per article basis, many carriers have had no claims experience with the \$1.25 rate--which is particularly true for carriers and forwarders that handle only DoD international shipments. In addition, the GAO reported that carrier industry officials stated the carrier industry was overbuilt and financially stressed, that the number of DoD overseas shipments was declining, and that making major changes now in the way carrier liability is computed for international shipments could lead to many carrier bankruptcies, which in turn result in disruption of both the industry and DoD operations. The GAO noted that the officials said that any increase in carrier liability for the shipments should be kept on a pound per article basis, and that the DoD should collect and review claims at the current temporary carrier liability rate of \$1.80 per pound per article before making any changes.

The GAO concluded that the payment of a compensatory rate for at least 3 years would avoid industry disruption and allow carriers adequate time to obtain sufficient claims experience under increased liability to enable adjustment of their transportation rates. The GAO added that, after 3 years, the MTMC and the Military Services should also have sufficient claims data to determine what level of carrier liability is desired and whether the compensatory rate should be adjusted or terminated.

Now on pp. 5 and 41-43.

Overall, the GAO concluded that the maximum carrier liability rate of \$.60 per pound per article for international household goods shipments is too low, since carriers have limited incentive at that rate to improve performance, and the Government bears a disproportionate percentage of claims costs. The GAO further concluded that the \$1.25 rate would more fairly allocate claims costs between the DoD and the carriers, although industry disruption may occur unless that rate is accompanied by a temporary compensatory payment. (pp. 5-6, pp. 45-48/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING K: The MTMC Data is Inadequate.** The GAO observed that the MTMC needs accurate household goods shipment and claims cost data to meet its responsibilities for overall household goods program management, determine cost effectiveness, and make program changes as needed. The GAO pointed out, however, the MTMC household goods program database has major problems that prevent DoD officials from obtaining adequate information to effectively manage many aspects of the program.

The GAO further reported that MTMC officials do not have adequate information with which to evaluate individual carrier performance. The GAO explained that the MTMC obtains periodic reports from the Military Service Judge Advocates General that include data on the number and amount of claims paid for loss and damage to household goods shipments, and stores that information in computerized data banks. The GAO compared computerized household goods claims data obtained directly from the Military Service Judge Advocates General with that stored by the MTMC for shipments moved during FY 1986 through FY 1991, and found that the MTMC claims data has major omissions. The GAO noted, for example, the MTMC database was missing about 30 percent of the claims paid and claims recovered data on Air Force shipments made between FY 1986 and FY 1991, and about 46 percent of similar data for the Army between FY 1988 and 1991. In addition, the GAO noted that officials from the MTMC Traffic Management Analysis Division said they considered the MTMC household goods claims data so unreliable as to prevent meaningful analysis.

The GAO found that the MTMC does not track some costs essential to evaluating increased liability effectiveness. The GAO found, for example, in exchange for the increased liability on domestic household goods shipments, the MTMC has since 1987 paid carriers a separate charge of \$.64 per \$100 shipment valuation, plus 10 percent of certain storage in transit charges. In addition, the GAO found the MTMC database does not capture what costs are paid as a result of the storage in transit calculation and, therefore, the MTMC could not determine its total costs for the increased liability. The GAO noted that it had to review actual

Now on pp. 5 and 48-49.

shipment records stored at the General Services Administration to determine those costs. The GAO also found numerous other technical problems with portions of the MTMC household goods database that greatly limit the MTMC oversight of the program's performance characteristics and cost. (pp. 6-7, pp. 49-50/GAO Draft Report)

DOD RESPONSE: Concur. Subsequent to the GAO field work, which covered shipment and claims data through 1991, the MTMC has been working with the Services to improve the adequacy and completeness of its database. The MTMC has loaded the revised FY 1992-1994 claims data provided by the Army and the Air Force, and is working with the Navy and the Marine Corps to obtain automated claims data capability. Existing memoranda of agreement between the Services and the MTMC require the Services to periodically provide updating information to the MTMC. This matter will receive added emphasis and monitoring, as discussed in the DoD response to Recommendation 3.

- o **FINDING I: More Emphasis is Needed on Military Service Recovery Activities.** The GAO reported that, after Military Service claims offices adjudicate and pay Service member claims for loss and damage on household goods shipments, the Military Services attempt to recover the costs from carriers up to the extent of the carrier's liability. The GAO referenced its discussion in Chapter 2 describing how Military Service recovery effectiveness varied under increased carrier liability on domestic shipments, with only the Air Force attaining the Project REVAL recovery goal of 78 percent of the amount of claims paid. The GAO noted that, as a result, DoD savings were about \$3.2 million less than if all the Military Services had performed recovery as effectively as the Air Force.

The GAO found that recovery effectiveness varied between the Services under other types of liability and shipments as well. The GAO explained that most of the carriers stated the Air Force claims recovery was highly effective, and was attributable to its use of well-trained and knowledgeable personnel. The GAO pointed out that the carriers said the effectiveness of recovery activities performed by the other Services was mixed.

The GAO reported that DoD officials said that the nature of household goods shipments varied little between the Military Services and that recovery effectiveness should also be very similar. The GAO noted, however, that military claims officials stated problems such as personnel shortages, poor coordination between claims offices, claims backlogs, specific office performance problems, and lost or misplaced payments from carriers had affected some Services in the past and had a negative impact on their recovery effectiveness. The GAO concluded that those problems may continue to affect Military Service recovery activities. The GAO asserted that effective recovery of claims costs by the Military Services is essential for increased carrier

Now on pp. 5 and 49-50.

liability to fully meet its goals of reducing claims costs and increasing carrier incentive for preventing shipment loss and damage. The GAO pointed out that is particularly the case since the DoD is paying carriers an additional separate charge in exchange for the increased liability on domestic shipments, and may do so on future overseas shipments. The GAO concluded that the DoD needs to place increased emphasis on recovery activities in order to achieve and maintain levels closer to those demonstrated by the Air Force. (pp. 6-7, pp. 50-51/GAO Draft Report)

DOD RESPONSE: Concur. Increased emphasis on carrier recovery is an important goal of all military claims services.

- o **FINDING M: Carrier Bonding and Insurance Needs To Be Reviewed.** The GAO reported that the MTMC requires carriers to purchase both performance bonds and cargo insurance before giving them approval to move DoD overseas household goods shipments, and cargo insurance is required for approval to move DoD domestic shipments. The GAO asserted that in this way the DoD protects itself from losses and costs that might occur if a carrier goes bankrupt and does not complete a move as contracted; or completes the move and receives payment, but leaves claims for damage unresolved. The GAO noted that increased carrier liability and other facets of the MTMC household goods programs are increasing the level of Government funds at risk. The GAO pointed out that past Government actions to recover the cost of losses associated with carrier bankruptcies have often been inadequate. The GAO concluded that, to assure that the savings potential of increased liability is fully realized, the DoD needs to (1) place increased emphasis on bond and insurance collection from carriers and (2) review carrier bonding and insurance requirements.

The GAO reiterated that Chapter 2 of the draft report described how carriers are subject to potentially greater DoD claims costs under increased liability. The GAO noted that most recoveries are made within about 2 years of shipment delivery, but military claims offices sometimes incur claims backlogs. The GAO further noted that, by statute, Service members have 2 years in which to file claims against the Government, and the DoD has 6 years from shipment delivery to initiate recovery from carriers. The GAO concluded that more Government funds are at risk under increased liability because (1) more is potentially recoverable and (2) carriers are also paid a separate charge for the increased liability at the time of shipment delivery.

The GAO reported that, although at least 60 carriers approved to move DoD shipments have declared bankruptcy or ceased to exist since 1980, Government actions to recover costs incurred as a result of the bankruptcies and terminations have so far been inadequate. The GAO explained that, according to MTMC officials, the Government sought

reimbursement under only one performance bond--collecting \$17,215 of the \$36,014 owed by a bankrupt carrier in late 1993. The GAO noted that MTMC officials said bond collections had never been effective, primarily because the MTMC and the General Services Administration (GSA), which jointly shared collection responsibility, never established workable collection procedures. The GAO pointed out that MTMC officials stated efforts were underway to improve bond collections and that the MTMC would be solely responsible for its own bond collections in the future.

The GAO reported that, in addition to the increased liability, other factors arising from the highly competitive nature of the household goods carrier industry are increasing the DoD financial risk, particularly on international shipments. The GAO explained that (1) both MTMC and industry officials stated that there are too many carriers competing for a decreasing amount of DoD household goods movement business, and (2) both carrier industry and MTMC officials acknowledged a growing tendency for some carriers to adopt a business strategy of going out of business. The GAO noted that some carriers have bid unusually low rates to win DoD business, received payment for moving a number of shipments, and then declared bankruptcy, leaving a large unpaid claims liability. The GAO also noted that some of those carriers then reenter the business under a new carrier name, and apply for new MTMC carrier approval.

The GAO reported that many of the carrier industry officials said they believed the MTMC carrier approval requirements were too lax. The GAO noted that MTMC officials acknowledged they rely heavily on bonding and insurance companies to evaluate the financial suitability of carriers before approving them for DoD shipments. The GAO noted that the problem is exacerbated by the MTMC provision of an incentive to the low-bidding carrier of as much as 30 to 50 percent of the traffic on international routes. The GAO added that the incentive is designed to reduce the DoD transportation costs through increased carrier competition, and to reward the carrier bidding the lowest rate. The GAO cautioned, however, that the DoD must assure that adequate bonding and insurance levels and collection procedures are in place to cover shipment and liability costs in the event of carrier bankruptcy. Otherwise, the GAO pointed out, the Government is vulnerable to significant financial losses. (pp. 6-7, pp. 52-55/GAO Draft Report)

DOD RESPONSE: Concur.

- o **FINDING N: Statute of Limitations Appears Needlessly Long.** The GAO reported that, under the provisions of 31 U.S. Code 3721, Federal employees have 2 years to file claims for loss and damage to personal property, including household goods. The GAO explained that, prior to 1952, the statutory period was 1 year. The GAO noted that the period was extended to 2 years to achieve consistency with other claims statutes.

The GAO observed that the 2-year period for filing household goods claims appears needlessly long. The GAO referenced its 1989 report (OSD Case 7735) on DoD household goods claims payment and recovery activities, which found the 2-year period contributes to claims management and adjudication problems, prevents carriers from making timely adjustments to their transportation rates, and causes increased Government costs. The GAO asserted that making timely adjustments to transportation rates will be even more important to carriers under increased carrier liability. The GAO indicated that all the carriers visited said the statute needed to be shortened to a year or less. The GAO noted that the carriers said, by contrast, claims on commercial shipments must be filed within 9 months of shipment delivery. The GAO also noted that DoD claims officials generally acknowledged that claims requiring more than one year to file usually involved Service member procrastination.

The GAO reported that it analyzed Army and Air Force claims data for FY 1988 through FY 1991 to determine the average amount of time required between shipment delivery and the filing of claims. The GAO found that in each fiscal year, more than 60 percent of all claims filed were filed within 6 months of shipment delivery, and over 80 percent within 1 year of shipment delivery. The GAO noted that Table 4.1 shows the amount of time in months between shipment delivery and claims filing for combined domestic and international household goods claims for the Air Force, the Army, and the Marine Corps in FY 1991.

The GAO reported that DoD officials stated the 2-year statute of limitations encourages some Service members to take longer than necessary to file their claims. The GAO pointed out that time tends to increase the already long gaps between the time household goods shipments occur and the time claims data for evaluating costs and carrier performance is available. The GAO also pointed out that both DoD claims officials and carriers said that long delays in filing household goods claims can result in claims settlement or recovery problems. The GAO concluded that unnecessary delays in filing claims also exacerbate carriers' problems in obtaining the claims recovery cost information they need to adjust their rates in a timely fashion.

The GAO asserted--again referencing the 1989 GAO report (OSD Case 7735)--that delays in filing household goods claims increase Government costs. The GAO noted that late-filed claims are generally more difficult to process and consequently increase administrative costs. The GAO pointed out that the DoD cannot conduct recovery activities and reuse the funds thus obtained until Service member claims are filed and processed. The GAO further pointed out that the availability of those funds and the amount of interest cost to the Government thus depend largely on the amount of time required for Service members to file their claims.

Now on pp. 5 and 52-54.

The GAO, therefore, concluded that 31 U.S. Code 3721--insofar as it pertains to household goods claims--should now be changed to allow a maximum of 1 year for filing household goods claims. (pp. 6-7, pp. 55-57/GAO Draft Report)

DOD RESPONSE: Partially concur. While the DoD concurs with the GAO observation that late-filed claims delay the recovery process, correspondingly delaying reuse of recovered funds, the DoD does not concur with the assertion that carriers are unable to calculate cost data, especially in light of the GAO finding that over 80 percent of all claimants filed their claims within one year from the date of delivery. All claimants are required to provide notice of loss or damage to personal property on the day of delivery by utilizing the DD Form 1840, "Joint Statement of Loss or Damage at Delivery," which also includes the Service member's estimate of the dollar amount of his claim, and again within 70 days of delivery on the DD Form 1840R, "Notice of Loss or Damage." Although carriers do not know the precise adjudicated value of the claims, they have timely data they can use to estimate their claims exposure. Frequently, a Service member is deployed on operational missions for 6 to 8 months or stationed overseas, and experiences difficulty securing documentation as to value and replacement costs for lost and damaged items. However, even if the statute of limitations was shortened to one year, it would not ensure that all recovery claims were filed within one year after delivery because, in the DoD system, claims are filed with the Government, and after payment to the Service member, the statute of limitations for the Government to file its subrogation claim against the carrier is six years.

* * * * *

RECOMMENDATIONS

- o **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Commander, MTMC, to eliminate the separate charge now paid to carriers to compensate them for increased risk on domestic shipments. (p. 7, p. 32/GAO Draft Report)

DOD RESPONSE: Concur. By March 31, 1995, the Office of the Secretary of Defense (OSD) will direct the MTMC to eliminate the separate compensatory rate paid carriers for increased risk on domestic shipments. Since DoD personal property rates are solicited twice yearly, the MTMC expects the rate change to be effective on domestic shipments beginning November 1, 1995.

- o **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Commander, MTMC, to increase carrier liability to the \$1.25 rate on international household goods shipments after providing adequate notice to carriers through the Federal Register. The GAO also recommended that

Now on pp. 5 and 28.

Now on pp. 6 and 44.

the rate be accompanied by a compensatory payment for 3 years, or until adequate claims data is available to permit carriers to file transportation rates that will adequately compensate them for the increased risk they would assume. (p. 7, p. 48/GAO Draft Report)

DOD RESPONSE: Concur. The GAO recommended change should achieve a DoD objective to increase carrier incentive to prevent loss and damage to household goods and provide the Service member a better quality move. The Senate Appropriations Committee Report on the FY 1995 DoD Appropriations Act states that there is a prohibition on the DoD from spending appropriated funds to increase carrier liability for the DoD international program for FY 1995. The OSD will direct the MTMC by March 31, 1995 to include increased carrier liability in the Spring 1995 solicitation package for shipments made beginning October 1, 1995.

Now on p. 54.

- o **RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense direct the Commander, MTMC, to correct inaccuracies in the MTMC household goods program database regarding claims payments and recoveries, and develop the procedures required to determine overall household goods program costs. (p. 7, p. 57/GAO Draft Report)

DOD RESPONSE: Concur. Subsequent to the GAO field work, the MTMC has been working with the Services to improve the completeness of its claims database. By March 31, 1995, the OSD will direct the Commander, MTMC, to ensure all required program data is included in its database. The OSD will also direct the Services to ensure all required data is provided to the MTMC as required by existing memoranda of agreement.

Now on p. 54.

- o **RECOMMENDATION 4:** The GAO recommended that the Secretary of Defense direct the Military Services to periodically report complete household goods claims and recovery data to the MTMC. (p. 7, p. 58/GAO Draft Report)

DOD RESPONSE: Concur. The OSD will issue, by March 31, 1995, a memorandum to the Services requiring that they provide complete claims and recovery data to the MTMC monthly in a standard automated format in accordance with existing memoranda of agreement.

Now on p. 55.

- o **RECOMMENDATION 5:** The GAO recommended that the Secretary of Defense direct the Secretaries of the Army and Navy to increase the emphasis placed on household goods claims recovery so as to increase those Military Services' recovery effectiveness to approximately the level demonstrated by the Air Force. (p. 7, p. 58/GAO Draft Report)

DOD RESPONSE: Concur. The OSD memorandum to the Services, discussed in the DoD response to Recommendation 4, will include comments on the need for the Services to emphasize claims recovery actions.

- Now on p. 55.
- o **RECOMMENDATION 6:** The GAO recommended that the Secretary of Defense direct the Commander, MTMC, to review household goods program carrier bonding and insurance requirements and collection procedures to ensure that the procedures are adequate to protect Government interests under increased carrier liability. (p. 7, p. 58/GAO Draft Report)

DOD RESPONSE: Concur. The OSD direction discussed in the DoD response to Recommendations 1, 2, and 3 will include direction to the MTMC to review the household goods carrier bonding, insurance requirements, and collection procedures. The MTMC has begun a DoD Personal Property reengineering process. The MTMC goal is to develop a program that is simpler to administer, reduces the workload imposed on the transportation officers, and, most importantly, provides the Service member a full-service commercial quality move. As part of that reengineering effort, the MTMC will consider all the issues discussed in the GAO report. Performance bonding will be expanded to cover domestic carriers. The Command expects to complete its review and implement any program changes on those issues by September 30, 1995.

* * * * *

MATTER FOR CONSIDERATION BY THE CONGRESS

- Now on pp. 6 and 55.
- o **SUGGESTION:** The GAO asserted that shortening the statute of limitations for filing claims for loss and damage to household goods shipments would facilitate claims adjudication, enable more timely carrier adjustments to transportation rates, and reduce Government costs, without imposing undue hardship on Military Service members or civilian employees. Therefore, the GAO again recommended that the statute--insofar as it pertains to household goods claims--be changed to limit the time allowable for filing claims to 1 year after the claim accrues. (pp. 7-8, p. 58/GAO Draft Report)

DOD COMMENT: Nonconcur. Implementation of the GAO recommendation would be unfair to members of the DoD when taking into account that the Military Claims Act, Title 10 U.S.C. 2733, the Federal Tort Claims Act, Title 28 U.S.C. sections 2671-2680, and the Foreign Claims Act, Title 10 U.S.C. section 2734, each has a 2-year statute of limitations. Frequently, a Service member is deployed on operational missions for 6 to 8 months or stationed overseas, and experiences difficulty securing documentation as to the value and replacement costs for lost and damaged items. Implementation of the GAO recommendation would have a negative impact on the quality of life issues that the DoD is working to enhance.

Comments From the American Movers Conference



February 13, 1995

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, DC 20548

Dear Mr. Hinton:

The American Movers Conference (AMC) appreciates the opportunity provided by the General Accounting Office (GAO) to offer comments and analysis regarding its draft report, "DOD Household Goods: Increased Carrier Liability for Loss and Damage is Warranted." AMC is the largest national trade association for the household goods moving industry, representing all segments of the industry, including approximately 3,000 agents, warehousemen, independent carriers, van lines and freight forwarders. Our members are actively involved in the DOD household goods program, both domestically and internationally.

We applaud GAO for the enormous efforts it has made to evaluate the effects of an increase in carrier liability on the DOD household goods program. AMC cooperated with GAO officials in their approach to development of the claim data. We are concerned, however, that GAO has misinterpreted the data collected and thus drawn some erroneous conclusions.

In summary, we are of the opinion that GAO has used an inflation index that has overstated the actual level of inflation between 1986 and 1993. We are bolstered in this view by the recent Congressional testimony of Alan Greenspan, the Chairman of the Federal Reserve Board. Mr. Greenspan testified that the Consumer Price Index overstates the rate of inflation by between 0.5 and 1.5 percentage points per year. However, our concern more narrowly focuses on the types of inflationary factors that directly bear on the cost of household goods claims. The CPI report provides a breakdown of the inflationary effects of different commodity components. These narrow commodity components thus reflect a more appropriate index of inflation of household goods claims costs. They show that the CPI overstates inflation by about eight percent over seven years. Under either argument, GAO's use of the CPI results in an overadjustment for the effects of inflation.

When a more accurate inflation index is used, the alleged reduction in claims costs disappears. The only decrease that occurs is found in the FY91 data, which appears to be flawed due to the effects of Desert Storm. Therefore, we request that GAO exclude FY91 data and concentrate on the changes in FY88-FY90. Any changes as a result of the 1987 increase in carrier liability should have occurred by then. We also note that the frequency of claims (which is unaffected by the choice of inflation index) did not decrease after the liability change in 1987.

Appendix II
Comments From the American Movers
Conference

-2-

Since there was no decrease in claims costs or frequency, the only effect of the increase in carrier liability was to transfer the cost of these claims from the military to the household goods carrier industry. This transfer is inappropriate because the military's refusal to allow carriers to settle claims directly in turn dramatically increases the cost of claims.

In 1987, MTMC changed the liability for domestic household goods shipments to \$1.25, and in return for essentially shifting the burden of liability to the moving industry, it provided a compensatory "valuation" charge of 64 cents per \$100 of declared value. Based upon the GAO data from this study, we believe that this valuation charge should not only be retained, but increased to \$1.35 per \$100 of declared value. The \$1.25 liability level serves to transfer the cost of claims from the Government onto the backs of industry, \$18.9 million to date. Yet the military refuses to allow carriers to settle claims directly with the service member, as is routinely accomplished in the commercial market, as well as the civilian government market. AMC's analysis also concludes that the military would save millions of dollars if industry was allowed to settle claims directly with military members.

Another important commercial practice is the prompt settlement of claims. Loss and damage claims on commercial shipments must be made within nine months of delivery. As in 1989, when GAO first made this recommendation¹, we strongly support GAO's proposal to decrease the time limit for military service members to file a claim from two years to one year. We urge DOD to reaffirm the support it gave to this proposal previously. Alternatively, MTMC could adopt the commercial practice of nine months, with direct settlement of claims by the carrier.

Clearly, if the increase in carrier liability to \$1.25 did not have the desired effect in the domestic market, there is no reason to expect that it would work in the international market. Because of the unique problems of operating in foreign countries with a multitude of unaffiliated service providers, it is much harder to control claims costs on international shipments. Additionally, there are some forwarders operating in the international arena who have made it a business practice to collect revenue for shipments for several years, and then go out of business before paying their agents and before paying their claims. Increasing carrier liability will increase the volatility of the international program and lead to more bankruptcies. Any increase in carrier liability beyond the base liability of 60 cents per pound per article must be accompanied by an appropriate compensatory valuation charge, as in commercial practice. Failure to pay this charge will inappropriately transfer costs onto the shoulders of private industry. DOD's entry, insurance, and bonding problems must be resolved before further increasing the liability placed on international carriers and forwarders. MTMC should return carrier liability in the international program to 60 cents per pound per article, or it should agree to pay an adequate compensatory charge to carriers for any increased liability.

The specific comments and conclusions of the American Movers Conference are as follows:

¹ *Household Goods: Evaluation of Department of Defense Claims Payment and Recovery Activities* (GAO/NSIAD-89-67, Feb. 24, 1989).

-3-

The Inflation Index Used By GAO Excessively Overstates the Amount of Inflation Between 1987 and 1993.

GAO argues that the increase in carrier liability in 1987 caused carriers to be more careful, and thus resulted in less damage to domestic shipments. This argument is based upon faulty interpretation of the data, because GAO relies upon dollar amounts that have been excessively inflated to 1993 dollars using the Consumer Price Index for all items in all urban areas. This index is unduly influenced by changes in fuel prices, food prices, and other factors that do not bear upon the cost of repairing or replacing household goods. A more accurate index would focus on those elements that make up a typical claim.

When GAO was preparing for this study, they asked industry whether the CPI was an appropriate inflation index to use. Since that time, we have looked more closely at the CPI and determined that there are specific portions of it that are more appropriate to look at when analyzing the cost of household goods claims. When analyzing carrier operating costs, an overall CPI, or the CPI less food costs is appropriate, as carriers do pay a variety of different costs, including the volatile fuel prices, in their overall operating expenditures. In the claims area, however, fewer of these items are relevant in determining the cost of claims. DOD's overall transportation cost could be indexed by this broader measure.

The Consumer Price Index for all Urban Consumers (CPI-U-All Items) is not an appropriate measurement for restating the total claims costs to DOD. The CPI-U measures the price movements of all items in the U.S. economy and is a very useful economic tool, but it is too broad of a measurement if utilized in the analysis of one specific aspect of a particular industry. There are too many unrelated components that make up the CPI-U that have no bearing at all on claims costs. Food and energy are two perfect examples; even the U.S. Department of Labor reports these components separately due to their volatile nature. When analyzing claims costs, specific indices that reflect household items and repair costs should be used. We propose the use of the following four categories that relate to the costs of purchasing replacement household goods items and the costs of repairing damaged items: Housefurnishings; Maintenance and Repairs; Apparel Commodities; and Toilet Goods and Personal Care Appliances.

The December 1992 CPI Detailed Report sets forth the weighting factors used to account for the relative importance of different factors in computing the CPI. We used the weighting factors for these four categories to create a household goods claims inflation index. In order to calculate a weighted average for the four indices, we used the actual index times its weighting factor, producing a weighted index. October 1993 became the base year of 100, with indices calculated for each of the fiscal years in the study. This is the same methodology as GAO used to construct its inflation index for each fiscal year, except that we only used those portions of the CPI specifically related to household goods claims costs.

Appendix II
Comments From the American Movers
Conference

-4-

The index numbers we used are as follows:

FY86 = 82.70
FY87 = 85.68
FY88 = 88.90
FY89 = 90.35
FY90 = 93.48
FY91 = 95.49
1993 = 100

These numbers are used to inflate to 1993 dollars in the same manner as GAO used. The actual data is divided by the index number to inflate to 1993 dollars.

The GAO Claims Study's Assertion that Loss and Damage Decreased on Domestic Shipments Due to the Increase in Carrier Liability is Incorrect.

We can also look at actual dollars as reported to GAO, if an appropriate inflation index can not be agreed upon. Actual dollars as paid to a service member are relevant because that is the amount of money the member actually receives. Claims regulations are based on actual dollars: *\$200 in cash is reasonable to assume was in a person's quarters; claims personnel must inspect the damage when the repair cost exceeds \$100 per item; maximum \$500 per claim in agreed repair costs without a written estimate; and the unofficial limit of \$1000 per claim that base claims offices usually do not even bother to investigate.* Carriers are paid in actual dollars, off of a baseline rate that has not been increased for inflation since 1983. All of these examples are of dollar figures that are not adjusted for inflation each year, so the amount paid for a claim need not be adjusted for inflation.

When expressed in actual dollars, instead of inflated 1993 dollars, the average amount of each domestic claim actually increased after the increase in carrier liability. We obtained the raw numbers from GAO's workpapers and found that Table 2.6 of the report would read as follows if not adjusted for inflation:

	FY86	FY87	FY88	FY89	FY90	FY91
Air Force	\$625	\$617	\$612	\$654	\$662	\$647
Army	"	"	677	689	724	721
Marine Corps	"	"	669	603	625	635
Combined	"	"	648	669	693	685

This shows an increase in the size of an average claim paid in each year, although the increase is not as large as the amount of inflation claimed by GAO.

Appendix II
Comments From the American Movers
Conference

-5-

If GAO's Table 2.6 (see above) had been adjusted for inflation based upon a more realistic index such as the one described above, its Table 2.6 would read as follows:

	FY86	FY87	FY88	FY89	FY90	FY91
Air Force	\$756	\$720	\$688	\$724	\$708	\$678
Army	*	*	762	763	774	755
Marine Corps	*	*	753	677	669	665
Combined	*	*	729	740	741	717

At the beginning of Chapter 2, GAO indicates that the amount of claims DOD paid to service members declined under the increased domestic carrier liability from over \$800 in FY86 to \$728 in FY91, which represents an overall reduction of about nine percent. The basis for this statement appears to be that GAO compared Air Force claims in 1986 to overall combined claims figures for 1991. Our restated version of Table 2.6 shows the decline to be about 5.2%, when a more realistic inflation index is used. Whether the decrease is 5.2% or 9% is not as important, especially when the annual change is considered over the six year period. Either of these figures amount to only one or two percent per year. This amount of decrease is not significant enough to use as a basis for important policy changes.

In fact, when the average domestic claim amounts are calculated back to FY80, the changes claimed by GAO disappear completely. The following table includes the data from above for FY86 through FY91. The data for FY80 through FY85 are taken from the 1988 GAO report presaging the change to \$1.25 liability².

Year	Claims Paid (Actual Dollars)	Claims Paid (1993 \$ by AMC Index)
FY80	\$520	\$719
FY81	522	687
FY82	525	666
FY83	550	683
FY84	591	730
FY85	609	736
FY86	625	756
FY87	617	720
FY88	648	729
FY89	669	740
FY90	693	741
FY91	685	717

The FY86 and FY87 numbers are for Air Force only, as the other services' data is not available. The key to this table is to compare the years before the 1987 change with the years following. GAO only looked at FY86 as a base year, but going back further shows that claims costs have not decreased with the change.

² *Household Goods: Implications of Increasing Moving Companies' Liability for DOD Shipments* (GAO/NSIAD-88-103, Mar. 24, 1988).

-6-

The Air Force's Project REVAL projected that the average amount of a household goods claim would be reduced by 34 percent when carrier liability was increased to \$1.25. AMC and other industry groups have previously rejected the methods and findings of the REVAL study, but this GAO study conclusively shows that the projected 34 percent savings was unfounded.

The Decrease in Claims Paid Occurred in FY91, Not as a Result of the FY87 Liability Increase.

Whether you accept AMC's restated version of Table 2.6 or the original GAO version, it is clear that there is almost no variation in the amount of average domestic claims paid between FY87, FY88, FY89, and FY90. The decline in claims paid occurred in FY91 only. It is hard to believe that carriers took four years of paying claims at the significantly higher \$1.25 level before implementing procedures to reduce their loss and damage. If carriers did react to the change in liability, it should have been reflected in lower claims paid in earlier years, with additional decreases in later years as slower-reacting carriers implemented changes.

Other tables in the report also show anomalies in the FY91 data for domestic shipments. For example, Table 2.4 shows a significant drop in claims recovery effectiveness in FY91. The Air Force reported recovery ratios of 78%, 80%, and 78% for FY88, FY89, and FY90. But for FY91, the ratio dropped to 73%. The Marine Corps ratio dropped from 63% in FY90 to 46% in FY91. For these reasons, we believe that the FY91 data is somehow different from the data collected for other years.

GAO asked the military claims services about why the FY91 data was different. They suspected that Desert Storm had caused major changes in the patterns and characteristics of moves. Fewer personnel were available to move domestically, and general movement patterns were disrupted. In addition, there may have been other factors relating to the claims services altering their workload to pay war-related claims rather than household goods claims. The war in Iraq also stretched military budgets, which may have led to the services being less generous with their claims payouts. Finally, shipments delivered into storage late in FY91 might not yet have exhausted their claims filing times. Any or all of these factors may explain why the data for FY91 is different from the other years in the study, but the real reason is not important. Any differences in the data should not be related to the 1987 change and thus would not be relevant. Therefore, we suggest that FY91 data not be included in the analysis due to its obvious differences with the other study years.

Removal of the FY91 data would show a decrease in average domestic claim cost from over \$800 to \$772 in FY90, using GAO inflation numbers. Using AMC inflation data, the drop is from about \$756 in FY86 to \$741 in FY90. These decreases are between 2.0% and 3.5%, hardly worth claiming credit for, especially when spread over five years. If the largest decrease in claims costs occurred four years after the change in liability, it is difficult to believe that there is a connection between increased carrier liability and lower claims costs.

-7-

Claims Frequency Did Not Decrease as a Result of the Increased Liability.

Perhaps the most telling statistic is glossed over by GAO in its report. Debate over the dollar amount of claims can be confusing due to the different inflation factors, but the frequency of loss and damage claims on domestic shipments should also be affected if carriers exercised more care in handling shipments when their liability increased. However, the frequency of claims did not decrease on domestic shipments with the increase in carrier liability, but in fact it increased slightly. The following table is also taken from GAO workpapers, but was not included in their report. It shows the claims paid frequency.

	Air Force	Army	Marine Corps
FY86	20.66%	--	--
FY87	19.84	--	--
FY88	19.29	19.09	10.97
FY89	21.50	21.11	13.13
FY90	22.68	22.69	14.06
FY91	20.98	21.57	10.94

There is a slight drop in frequency in FY87 and FY88, but in the long run, claim frequencies are higher than before the change in liability. DOD is not interested in short-term results; they want to see a long-term reduction in claims. Shifting the liability for claims onto the carrier industry did not provide this result in the domestic arena and will not improve the international program.

The data for 1991 may be incomplete due to the excessive time allotted for the filing of claims and the large percentage of military shipments that are placed into storage for long periods. Shipments placed into storage in 1991 for six months or a year would then have an additional two years after delivery for the service member to file a claim. While only a small percentage of claims are filed close to the two-year deadline, our studies indicate that over half of all military shipments are placed into storage. The two year time limit does not start until the shipment is delivered out of storage, and even a few claims not yet filed could increase the frequency numbers for 1991.

When the data for FY82 through FY85 (from the 1988 GAO report³) are included, the table looks even more interesting:

Year	Claims Frequency (All Services)
FY82	20.4%
FY83	16.7
FY84	17.4
FY85	15.7

This shows that the frequency of loss and damage claims was substantially less before the increase in carrier liability in FY87.

³ Ibid.

-8-

Why Did the Increased Liability Not Work?

It seems logical to expect that an increase in carrier liability would cause the carrier to exercise more care in handling its shipments. So why do the GAO figures not support this conclusion? First, household goods carriers have always exercised a great deal of care in handling shipments. The people who work in this industry take pride in their work, and we know how important household goods possessions are to our customers. It is the movers' responsibility to deliver the shipments with a minimum amount of loss and damage. If we do not, we will lose customers the next time they move and the next time their friends and neighbors move. Even if we were not liable for any of the loss and damage occurring during a move, this would be the case. The unfortunate problem is that a certain amount of handling must occur with any move, and handling breakable objects is bound to lead to some loss and damage. This is why most people choose to rely on professionals to facilitate their move.

The amount and frequency of loss and damage on military shipments differs from that of commercial shipments, according to our own claims studies. But what we have found is that military shipments tend to have claims on a smaller percentage of shipments, with the average claim amount higher than on commercial shipments. AMC continues to be of the firm opinion that the average claim amount is higher on military shipments due to industry's inability to settle claims directly with the service member. When measuring claims frequency though, military shippers appear to fare better than their corporate and COD counterparts.

When a household goods van arrives to pick up a shipment, the process is basically the same regardless of whether the person who owns the goods is in the military or a civilian. The driver, the local agents, and the van line all follow the same steps to perform a move. In most cases, the two types of shipments are placed onto the same van at the same time, since a van can hold more than one average sized shipment. The loads are mixed based upon origin, destination, and size to optimize travel time and load factors. The driver does not stop to think, "ok, this one is a military shipment, and the next one is a commercial shipment, so I will load and handle the furniture in a fundamentally different way due to the liability associated with the shipment."

While the military is the moving industry's largest single customer and represents an important segment of the overall market, it only represents about ten percent of all household goods shipments. Carriers and agents have established quality control measures over the years designed to ensure that all of its customers, not just 90%, will receive high quality service. Changing the liability levels for just ten percent of our business will thus have a more limited effect on the overall quality of service.

GAO's Reported Savings of \$18.9 Million is Simply Transferred from Industry.

GAO claims that the increase in carrier liability resulted in a net savings to the government of \$18.9 million, and that if all services had increased their recovery rates to the Air Force's 78%, the savings would have amounted to \$22 million. This savings is not a true savings, but rather a transfer to the private sector of the costs of paying loss and damage claims. By making household goods carriers liable for much more of the claims costs, the government simply transferred responsibility for paying these costs to the carriers. Since we have shown above that there was no actual reduction in total costs, this shifting of claim costs can be characterized as more of a tax than a savings.

-9-

The new Republican Congressional majority calls this type of government requirement an unfunded mandate, because the government is requiring another entity (a household goods carrier in this case) to pay for something without adequate compensation for the costs of implementing this mandate. DOD has mandated that the private sector pay these increased claims costs, without providing an adequate compensatory charge to pay for the mandate.

Table 2.2 is an illustration of the confusion over the actual effects of the increased liability. This table shows a total amount saved on Air Force shipments of over \$7 million. When projected over the entire military, GAO projects "savings" of \$22 million if all of the services were as "effective" as the Air Force. These "savings" are in fact merely transfers of costs to industry. Just because the Air Force was effective in passing 78% of its costs through to the private sector does not mean that 78% of the cost of claims should be paid by the carrier industry. The claims costs are so high because of the military's insistence on settling claims with the service member and then sending the bill to the carrier. This approach promotes unreasonably generous claim payouts which runs counter to established commercial practice.

Similarly, Table 2.1 shows the percentage "cost reduction" compared to FY86. This cost reduction is actually a cost transfer from the military to industry. The percentages on the bottom row would come in at a slightly lower level if a more accurate inflation index was used, but this table would still show a cost shifting of 18-25% from the military to the moving industry. It is important that these figures be reported as a cost shifting rather than a cost savings.

Simply shifting the costs to the private sector does not solve the problem. It is unfair for the Government to expect its contractors to absorb 100% of these costs. We have shown above that carriers were not able to improve their performance because their procedures are driven by the commercial market. Yet the nature of the bidding system for domestic household goods shipments does not permit carriers to increase their rates. Rates are bid as a percentage of a baseline rate that was set at 1983 levels and frozen ever since. The vast majority of rate bids reflect 100% of the baseline level, while some high volume installations reflect bids significantly less than 100%. These bids have not increased over the years, since if a carrier decides to increase its rate in order to offset increased costs (e.g. incorporate valuation charges), it loses the opportunity to participate in traffic, because only the low bidders receive shipments.

Carriers Are Not Able to Simply Add Claims Costs Into Their Rates.

Any effort to recover the additional claims costs by increasing rates would be unsuccessful, as is shown in Table 2.5. Carrier transportation costs per shipment or per hundredweight shipped did not increase as fast as inflation, by any measure of the inflation rate. This is due to the bidding process, which essentially locks carriers in at the 100% rate. Even at those bases where the low rate is not at 100%, carriers that try to recover their increased costs are forced to meet the lowest rate bid by any one carrier in order to continue to receive shipments.

Appendix II
Comments From the American Movers
Conference

-10-

In addition, AMC's Continuing Traffic Study demonstrates the same type of finding, although with a smaller differential between 1986 and 1991. The CTS is based on a calendar year basis, instead of the fiscal year. It includes data for all of the military services, not just the Air Force. The table below follows the same methodology as GAO's Table 2.5 to arrive at the net program cost per hundredweight. It utilizes the claims cost per hundredweight calculated from GAO's Table 2.5 to make the data comparable, since the CTS data does not capture claims information.

CTS Study Year	1986	1987	1988	1989	1990	1991
Hundredweight (cwt.)	4,643,627	4,959,203	5,023,234	5,114,832	5,222,146	5,255,642
Carrier Total Transp. Costs All Military Services (Inflated by GAO Index)	228,834,534	253,046,845	261,247,301	247,453,630	267,826,154	256,605,520
Average Total Transp. Costs per cwt.	49.28	51.03	52.01	48.38	51.29	48.82
Net Cost of Claims per cwt.*	2.18	1.33	0.60	0.60	0.65	0.73
Net Program Cost per cwt.	51.46	52.36	52.61	48.98	51.94	49.56

*Calculated from GAO Table 2.5 (Claims paid less recovery from carriers, factored by AMC's inflation index, then divided by hundredweight).

Like GAO's Table 2.5, this shows that carriers were not able to increase their revenue on transportation to make up for the increased cost of claims.

The Separate Valuation Charge Was Intended to Cover the Cost of Increased Carrier Liability, Not to Serve as a Temporary Transition Fee.

When the military made the decision in 1987 to shift the liability for domestic loss and damage claims onto the moving industry, it instituted a separate "valuation" charge of 64 cents per \$100 of declared value to cover the increased cost of this liability. At the time, commercial shipments moving at \$1.25 liability had a valuation charge of 50 cents per \$100. GAO argues in its report that "carriers now have the claims experience needed under increased liability to adjust their rates to compensate for any increased liability costs, thus making further compensatory payments unjustified." This argument misstates the purpose of the compensatory valuation payments. These payments are intended to compensate the carrier for the increased risk it is assuming by agreeing to pay claims at the much higher liability level of \$1.25 times the weight of the entire shipment. Unless the liability level is returned to 60 cents per pound per article, the valuation charge is needed in return.

-11-

Carriers are not able to simply include the lost revenue from the valuation charge in their rate. Rates are bid in a competitive market, and business goes only to those carriers who are willing to meet the lowest rate bid. If just one carrier does not adequately factor the cost of claims into their bid, the others must match that low rate.

In addition, revenue is distributed within a van line system to the different agents, drivers, and the van line based on a formula intended to direct each type of revenue to the specific service provider who performed the service. Thus, the packing charge would go to the origin agent, a stair carry at destination would go to the driver or destination agent who performed the service, and the valuation charge would go to the van line that assumes the liability for the shipment. The linehaul charge is divided among the different entities responsible for the through movement of the shipment. Including the valuation charge in the linehaul thus would not direct the revenue to the entity assuming the extra liability of \$1.25. In order for the van line to receive the entire 64 cents, it would have to increase its linehaul bid because some of the increase is distributed to the agents and the driver. Having separate items permits a more accurate bid and provides the best cost to the government.

The valuation charge was instituted in the commercial market for the same purpose: to compensate for the additional cost of the increased valuation. The difference between the commercial charge and the military charge was due to the military's insistence on settling claims, rather than permitting the carrier to settle directly with the service member, as is done in the commercial sector. The military is usually more generous in its payments in order to protect the service members' "quality of life." We support efforts to improve the service members' quality of life, but suggest that it might also be appropriate to establish a separate payment to the relocating service member to cover "quality of life" concerns associated with a move. This type of explicit payment would replace the current hidden cost involved with having the military settle claims, and would permit carriers to settle claims directly with the service member.

The commercial valuation charge has since been increased to 70 cents per \$100, in acknowledgement of the effects of higher loss and damage claims. MTMC and the military services should agree to increase the valuation charge on military shipments from the present 64 cents to \$1.35. Alternatively, the military could move to the claims structure present on commercial shipments, where customers have nine months to file a claim directly with the mover, with a 70 cent valuation charge. This approach would save the government significant amounts of money in claims costs and claims personnel.

In addition to the 64 or 70 cent valuation charge, an additional charge is levied on shipments placed into storage to cover the warehouseman's liability for the shipments while in storage. On military shipments, this charge is 10% of the storage charges, less warehouse handling. On commercial shipments, this charge has been changed to 10% of the valuation charge for each fifteen day storage period, which is a more accurate reflection of the amount of potential loss and damage. There is no correlation between the cost of storage and the value of the shipment, therefore it is illogical to base the SIT valuation charge on the cost of storage.

Appendix II
Comments From the American Movers
Conference

-12-

An Appropriate Level of Compensation for the Increased Carrier Liability Would be \$1.35 per \$100 of Declared Value.

To determine an appropriate level for the valuation charge on domestic shipments, we analyzed Code 1 data from GAO workpapers for the Army, Air Force, and Marine Corps for FY88 through FY91 in the following table:

	YEAR	1988	1989	1990	1991
LINE 1	WEIGHT OF ALL SHIPMENTS (LBS)	750,175,457	736,302,956	541,734,486	605,317,522
LINE 2	ACTUAL VALUATION COLLECTED	6,001,403	5,890,273	4,333,876	4,842,540
LINE 3	SIT VALUATION	1,478,172	991,339	1,533,619	816,329
LINE 4	ACTUAL DECLARED VALUE (LINE 2/.64)	9,377,192	9,203,552	6,771,681	7,566,469
LINE 5	ACTUAL DECLARED VALUE PER POUND	1.25	1.25	1.25	1.25
LINE 6	AMOUNT OF CLAIMS PAID BY SERVICES	19,985,584	21,538,255	16,402,246	17,207,118
LINE 7	PROJECTED PAYMENT BY CARRIER (@78% RECOVERY)	15,588,756	16,799,839	12,793,752	13,421,552
LINE 8	PROJECTED PAYMENT LESS SIT VALUATION (LINE 7 - LINE 3)	14,110,584	15,808,500	11,260,133	12,605,223
LINE 9	.60 CENTS PER POUND LIABILITY (LINE 1 X .003914*)	2,936,187	2,881,890	2,120,349	2,369,213
LINE 10	REQUIRED VALUATION REVENUE (LINE 8 - LINE 9)	11,174,397	12,926,610	9,139,784	10,236,010
LINE 11	REQUIRED VALUATION CHARGE (LINE 10/LINE 4)	1.19	1.40	1.35	1.35
LINE 12	NET LOSS TO CARRIERS IF NO CHANGE IN VALUATION RATE (LINE 10 - LINE 2)	(5,172,994)	(7,036,337)	(4,805,908)	(5,393,470)

* FY 86 (\$2,994,566/765,045,407 LBS = .003914)

Line 4, actual declared value, is the value placed on the shipment by the service member. As shown in Line 5, this is calculated at \$1.25 per pound times the weight of the shipment. In Line 7, we included the projected payment by the carrier, assuming the 78% recovery currently experienced by the Air Force, and called for by GAO. Line 8 subtracts out the amount of revenue received by carriers for SIT valuation. Line 9 accounts for the cost of the 60 cents per pound liability borne by carriers previously, calculated based on the amount of claims paid in 1986 under 60 cent liability. The new required valuation revenue is shown on Line 10 after subtracting the cost of the 60 cents. Line 11 calculates what the 64 cent valuation charge should be under the \$1.25 liability. Line 12 shows the net loss to carriers since the 64 cent valuation charge is too low. By setting the carrier liability at \$1.25, and permitting only a 64 cent valuation charge, the military transferred this amount of money from the carrier in increased claims costs. Since we have shown above that the amount and frequency of claims did not decrease, the only effect of the increase in valuation has been to take money from the pockets of household goods carriers--\$22 million in just four years.

-13-

Carriers Have Lost Money on the Compensatory Charge.

In 1988, GAO projected that 28% of the carriers would have low enough claims payouts that they would break even with the revenue received from the 64 cent valuation charge compared to their claims costs⁴. In this study, GAO attempted to verify the actual results of this comparison. GAO analyzed the top 50 carriers, which account for over 50% of the shipments in the program. Of these top 50 carriers, only one carrier broke even in FY90, assuming a 78% recovery level. At a 66% recovery level, only three carriers broke even. In FY91, the statistics were even worse, as no carriers broke even at the 78% level, although seven carriers did at a 66% recovery level. None of these scenarios result in anything close to the projected 28% break-even level.

Settling Claims Directly With the Service Member Would Save The Government Millions of Dollars.

The 78% recovery level sought by GAO is inappropriately high because the costs of the military claims settlement process amount to far more than 22% of total claims costs. Claims on military shipments are enormously higher than claims on our national account shipments, according to AMC's Claims Study. This study measured the average claim paid (in actual dollars), which is shown below, along with military data (also in actual dollars) from the GAO workpapers. The average weight of national account shipments is significantly greater than on military shipments because national accounts generally move mid to high level managers and executives who have accumulated more possessions. In addition, more military shipments are placed into storage-in-transit (SIT), which probably increases loss and damage due to additional handling. This effect is difficult to quantify. These figures, however, can provide an estimate of the cost of claims if settled directly between the carrier and the service member.

National Account

	Average Claim Paid	Avg. Wgt./Shipment	Avg. Paid/cwt.
1987	\$403.34	8000 lbs.	\$5.04
1988	426.71	8081	5.28
1989	505.13	8556	5.90
1990	493.96	8862	5.57
1991	439.34	8700	5.05
Average	453.70	8440	5.37

Air Force

	Average Claim Paid	Avg. Wgt./Shipment	Avg. Paid/cwt.
FY87	\$616.66	5064 lbs.	\$12.18
FY88	611.59	4805	12.73
FY89	654.34	5113	12.80
FY90	661.87	5322	12.44
FY91	647.15	5231	12.37
Average	638.32	5107	12.50

⁴ Ibid.

Appendix II
Comments From the American Movers
Conference

-14-

Air Force, Army, & Marine Corps

FY87	\$664.39	4835 lbs.	\$13.74
FY88	648.36	4457	14.55
FY89	669.22	4682	14.29
FY90	692.60	4979	13.91
FY91	685.41	4983	13.75
Average	672.00	4787	14.04

This table shows that the average Air Force claim paid is 233% of a national account claim, and the average for all services is 261%, on a hundredweight basis. If switching to commercial claims practice would result in the same level of claims paid per hundredweight, this change would have reduced total FY88-91 claims costs from \$75,133,203⁵ to \$28,736,844, for a total savings of about \$46.4 million. This does not include the significant savings associated with reducing or eliminating military claims personnel.

The Military Program is Different From Commercial Practice.

The following table was first printed in our comments filed in 1987 when the \$1.25 liability was implemented. It has been updated to reflect the current situation, but it is still relevant in pointing out the many differences between the military program and accepted commercial practice on domestic shipments.

	Current Commercial Shipper Practice	Military Program
Liability	\$1.25	\$1.25
Valuation Charge	70 cents per \$100 of declared value	64 cents per \$100 of declared value
SIT Valuation	10% of valuation charge	10% of SIT Rate
Claims Settlement	By carrier	By military service with revenue setoff procedure
Linehaul Rate Level	Base rate at current market level	Base rate frozen at 1983 level
Average Linehaul Revenue Per Shipment	\$2095	\$1563

In addition to the differences noted above, in the commercial market, many shippers elect to purchase additional valuation by increasing the declared value of their shipment above the \$1.25 level. In our most recent Continuing Traffic Study for 1992, we found the average level of declared value on domestic commercial shipments as \$2.13. Military members may also increase the declared value, but they would have to pay this out of their own pocket, so it is much rarer. An increase in the declared value translates into an increase in the valuation revenue collected by the carrier, while increasing the carrier's exposure to loss only in cases of total loss of the shipment, which are rare. The absence of such additional revenue in the military market makes the difference between the 64 cents and 70 cents loom even larger.

⁵ Table 2.4.

-15-

Increasing Carrier Liability on International Shipments Will Not Reduce Claims.

We have demonstrated above that increasing the liability to \$1.25 with a valuation charge of 64 cents did not improve claims frequency or the overall cost of the average claim in the domestic program. Nothing was accomplished by the increase in carrier liability in that program except to transfer liability from the military to the mover. The increase to \$1.80 has already significantly increased carrier liability from the 60¢ level, without any compensatory valuation charge. There is no reason to expect that increasing carrier liability in the international program will reduce claims there either. Therefore, the liability level in the international program should either be returned to 60 cents per pound per article, or carriers should be adequately compensated for the additional liability.

The international market is vastly different from the domestic market. Most shipments are coordinated by freight forwarders with looser ties to the agents and other service providers than a domestic van line operation. By its very nature, half of these service providers are in foreign countries, and many of them refuse to accept responsibility for loss and damage they cause. The nature of an international move involves much more handling, more transfers, and a longer transit time, all of which increase the mover's exposure to potential loss and damage.

In addition, some of these freight forwarders have limited assets invested into their business and may be more likely to go out of business, especially in light of the shrinking military international business. The nature of freight forwarding is that the assets required are capital assets, not fixed assets. While van lines distribute revenue at the point of collection from the government (after delivery), forwarders must pay many of their bills up front. Therefore, it takes more capital to run a forwarder, which makes the forwarding business more volatile, since their assets are doubling as working capital.

The current MTMC requirements for approval as a forwarder only require an investment of about \$10,000. In the domestic business, van lines can only bid on business after they have arranged for agent representation, based on representation limits. In the international business there are no representation limits, so a new forwarder has world-wide representation from the beginning. Because of the incentive tonnage program, a new forwarder has access to a significant amount of business with minimal investment, thus making the international program more volatile. In addition, shipping household goods internationally has many more variable costs, including currency fluctuation, which adds to the volatility. DOD's proposal to increase carrier liability to \$1.25 will add to this volatility, especially considering the two-year lag time associated with the payment of claims. As GAO reports, this program has already experienced over 60 bankrupt forwarders since 1980, with very limited success in recovering lost money from surety bonds. Increasing carrier liability will increase the bankruptcy rate, costing the government far more in the long run than it might save in the short term.

Lastly, there are many outstanding DOD approved forwarders providing quality service to the military. However, the structure of the military international procurement program does allow for abuses by unscrupulous forwarders to the detriment of the military member, agents who do business with them, and those forwarders who are financially sound and conduct themselves in accordance with DOD policy. AMC would support reasonable MTMC efforts to ensure that all service providers in both the domestic and the international programs are financially sound and provide the military with the level of service expected of them, absent the past bankruptcy problems.

-16-

The Valuation Charge in the International Program Would Need to Be Higher.

In Table 3.2, GAO attempts to calculate the impact of various levels of valuation charges if the carrier liability is increased to \$1.25 in the international program. This table is used to predict that if the international valuation charge is set at \$1.50 per \$100 of declared value, not one of the top 50 international carriers would be compensated for their additional liability. At \$1.69 per \$100, only five carriers are fairly compensated. At the \$2.04 level, which is the highest level recommended by GAO, 28 percent of the top 50 carriers would be compensated for the increased liability. GAO does not indicate what percentage of the total volume of international business is handled by those 14 carriers.

Unfortunately, we remember that GAO predicted that 28% of domestic carriers would break even on the 64 cent valuation charge.^a Yet only one to three carriers broke even in FY90, as shown above. This convinces us that even the \$2.04 level is not sufficient. Table 3.2 shows an average cost to carriers of \$6.2 million over FY89 to FY91, with liability at 60 cents per pound per article. When the liability rate is increased to \$1.25, GAO projects a recovery from carriers of \$22.5 million. To compensate carriers for the \$16.3 million difference, a valuation charge of \$2.31 would be required. If MTMC is not willing to pay this compensation, it should return carrier liability to the 60 cents per pound per article level.

Settling Claims in the International Business is Different.

On outbound international shipments, repair costs are harder to control, as the work must be done in a foreign country. Within the United States, many of the major van lines and claims settlement companies have established relationships with repair firms that are able to perform the repairs at a reasonable price. Even where this is not the case, there are more controls over the legitimacy of these firms than in many overseas countries. For this reason, forwarders are better equipped to estimate their claims costs when their liability is measured on a per pound per article basis.

Estimating claims costs is an important part of a forwarder's efforts to construct a competitive, compensatory rate for international shipments. These rates are bid on a single factor basis, based on the hundredweight of the shipment. With other costs also calculated on a per pound basis, this is the easiest way to prepare an accurate rate bid. Since the incentive tonnage in the international program is large, the rate bid is very important. We agree with GAO's concern that there are problems with settling the incentive as high as it is in the international program. Any forwarder who is able to underbid his competitors by ignoring claims costs would receive a much larger share of the market and thus strand many more shipments when he decides to go out of business.

All of the problems noted by GAO in Chapter 4 need to be corrected before consideration is given to increasing the liability to \$1.25. We do not feel that military services' recovery activities should be tightened, as the services already charge back more on claims than they should to the carrier industry. But the bonding and insurance rules should be strengthened, and MTMC must be more careful about who is permitted to enter the program. MTMC should collect on past bonds, although that in itself will not alleviate the problems. The incentive should be revised to avoid overexposure on losses. Finally, as discussed below, the time limit on filing claims should be reduced to a manageable length.

^a See note 4 above.

-17-

The Statutory Limit on Filing Claims Should be Reduced from Two Years to One Year.

AMC supports wholeheartedly GAO's recommendation to decrease the time for filing claims from two years to one year. This is a recommendation that GAO made in 1989, and it is still valid today. Commercial shippers have nine months from delivery to file a claim, and this proposal would still provide military members with an additional three months. In addition, there are exceptions for claims that accrue during a war or other armed conflict. The language drafted by GAO provides adequate flexibility to meet the concerns of military officials, and we call on the DOD to renew its previous support for this amendment.⁷

AMC Supports Military Quality of Life Initiatives.

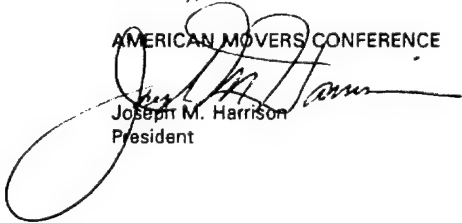
AMC also supports efforts to protect the military service member's "quality of life." Our members take pride in moving members of the armed forces and want to ensure their continued readiness to protect our country. This quality of life would not be harmed by settling loss and damage claims within a shorter period of time. In fact, quicker reimbursement for these claims might even enhance quality of life by permitting the member to repair or replace the item quickly.

In addition, quality of life is not adversely affected by permitting the household goods carrier to settle loss and damage claims directly with the service member. This is the practice with civilian government employees. Our commercial accounts, which move corporate executives, permit direct settlement without impacting employee morale. Military service members are even better equipped to handle loss and damage claims than the average executive, as the service members are in most cases veteran relocators with more experience. A smaller claims office could be retained to assist those who require help. In many cases, the claim could be settled at delivery, with an immediate payment. This should improve morale.

Thank you for allowing us the opportunity to provide our input on this important subject.

Sincerely,

AMERICAN MOVERS CONFERENCE


Joseph M. Harrison
President

⁷ In its response to *Household Goods: Evaluation of Department of Defense Claims Payment and Recovery Activities* (GAO/NSIAD-89-67, Feb. 24, 1989), p. 29, DOD states, "The DOD supports shortening the statute of limitations for filing claims from two years to one year."

Comments From the Household Goods Forwarders Association of America



HOUSEHOLD GOODS FORWARDERS ASSOCIATION OF AMERICA, INC.®

2320 MILL ROAD
TELEPHONE (703) 684-3780

SUITE 102
TELEX: 710-822-1108

ALEXANDRIA, VIRGINIA 22314-4679
FAX (703) 684-3784

February 14, 1995

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
National Security and
International Affairs Division
U.S. General Accounting Office
Washington D.C. 20548

Dear Mr. Hinton:

The Household Goods Forwarders Association of America, Inc. (HHGFAA) appreciates being given the opportunity to provide comments on the General Accounting Office (GAO) draft report, "DOD Household Goods: Increased Carrier Liability for Loss and Damage is Warranted" (GAO code 703016). We have incorporated the comments from our 1,300 members, who participate in both the domestic and international movement of DOD personal property, in the enclosure.

We thank the GAO for allowing additional time to submit our comments. If there are any questions or additional information needed, please contact me.

Sincerely,

HOUSEHOLD GOODS FORWARDERS
ASSOCIATION OF AMERICA, INC.

Donald H. Mensch
Donald H. Mensch
President

Enclosure

DONALD H. MENSCH
President
Alexandria, Virginia

GEORGE W. PASHA, IV
Chairman
Corte Madera, California

RICHARD W. CURRY
Vice Chairman
Orange, California

JEFFREY J. BELL
Executive Committee
Member at Large
Orange Park, Florida

HAN HELOERS
Executive Committee
Member at Large
Carlsbad, California

HEINO PREISSLER
Executive Committee
Member at Large
Bellevue, Washington

SANDRA L. ROWE
Executive Committee
Member at Large
Torrance, California

DONALD L. COLLINS
Associate Members'
Representative
St. Thomas, U.S. Virgin Islands

TERRY R. HEAD
Associate Members'
Representative at Large
Alexandria, Virginia

ALAN F. WOHLSTETTER
General Counsel
Washington, D.C.

COMMENTS OF
THE HOUSEHOLD GOODS FORWARDERS ASSOCIATION
OF AMERICA INC.
TO THE
GAO DRAFT REPORT ON INCREASED CARRIER LIABILITY
FOR LOSS AND DAMAGE ON SHIPMENTS OF MILITARY
HOUSEHOLD GOODS
(GAO Code 703016)

I. INTRODUCTORY

The Household Goods Forwarders Association of America, Inc. (HHGFAA) numbers 94 members which participate in the International Military Household Goods Program and which collectively handle, by far, the largest share of the international military shipments. We therefore have a vital interest in MTMC's proposed change in carrier liability which is the subject of the GAO draft report.

The HHGFAA firmly believes, for reasons fully set forth in its comments, that the GAO draft report, as presently drafted, cannot reasonably be used to support a change from the present carrier liability of \$1.80. This liability level, which became effective October 1, 1993, represented a three-fold increase in the liability previously in effect; this prior liability being the one measured by the GAO in its draft report. GAO clearly states that it has not considered any experience incurred under the present carrier liability and we submit that a change of the magnitude here proposed, when coupled with GAO'S recognition of the potential disruption of the entire international household goods industry serving the Department of Defense, makes it irresponsible to predicate a decision on the basis of supposition and speculation rather than fact.

Our members also participate in the DOD domestic household goods program and therefore have a substantial interest in the conclusions reached by the GAO. Our analysis of the GAO report is that two primary and separate conclusions are reached: (1) that a

- 2 -

statistical review of experience under the \$1.25 per pound per shipment liability warrants a continuation of that level of carrier liability; and (2) that the compensatory valuation or shipment charge established as the consideration for carriers' assuming that increased liability should be eliminated.

Although we believe there is some overstatement of the benefits of the \$1.25 liability, the HHGFAA does not take issue with the GAO recommendation that the \$1.25 liability should be continued, rather than returning to the previous liability of \$.60 per pound per article. The HHGFAA submits, however, that the GAO Report cannot properly be used as a predicate to eliminate the shipment charge because it contains no statistical study which permits the requisite analysis of the impact of that action on the carriers performing this service for the Department of Defense.

II. CARRIER LIABILITY IN THE DOD
INTERNATIONAL HOUSEHOLD GOODS
PROGRAM SHOULD NOT BE INCREASED
TO \$1.25.

1. No Change in Carrier Liability
Should be made until Experience
Under Present Carrier Liability
Has Been Statistically Evaluated.

The primary basis advanced in the draft report for changing to the \$1.25 per pound per shipment liability is that the 60-cent per pound per article carrier liability level, no longer in effect, does not provide sufficient incentive to carriers to take steps to reduce loss or damage incurred in the international movement of household goods shipments. This conclusion is based upon GAO's review of claims frequency and the average amount of claims incurred during the period FY 1988 through FY 1991. The obvious flaw in using this study period as a basis to posit a conclusion that the present liability of \$1.80 should be increased is: (1) the admitted failure to consider the fact that carrier liability for loss and damage has tripled since the period studied in the GAO draft report (Report, p.44); (2) the

- 3 -

failure to evaluate the impact on claims experience of the far-reaching and expensive Total Quality Assurance Program (TQAP), imposed on carriers by MTMC since the period considered in the GAO draft report, a primary objective of which is to incentivize carriers to reduce loss and damage by withholding tonnage from carriers which fail to meet the MTMC-set standards; and (3) the failure to consider the impact on claims experience of the High Risk Item Protection Program instituted by industry.

The TQAP program was initiated in February, 1992, and became fully operational sometime thereafter; the present carrier liability of \$1.80 became effective on October 1, 1993; and the High Risk Item Protection Program went into effect in late 1993. Logic and just plain common sense underscore the need to evaluate experience under the present carrier liability standard, and under claims reduction programs enacted after the period considered in the GAO draft report, in order to reach a supportable decision of whether an additional "incentive" in the form of further increased carrier liability is necessary to reduce claims.

We take no issue with the standards employed by GAO, viz., frequency of claims and the average amount of the claim; we take the strong position, however, that these standards should be applied to the relevant period. Accordingly, it is our position that, at the very minimum, no further change should be made in carrier liability until GAO has considered the empirical data derived from actual experience with the use of the \$1.80 liability and has determined whether or not it has resulted in the lessening of claims frequency and how it has affected the average amount of the claim.

2. The Statistics Relied Upon in the
GAO Draft Report do not Support
the Change in Carrier Liability.

The figures relied upon in the GAO draft report to establish claims frequency during the years studied are as follows:

- 4 -

FY 1988	20.4
FY 1989	22.4
FY 1990	23.5
FY 1991	23.7

This increase is characterized properly in the GAO report as "relatively moderate" since as it is noted, the frequency increased only 3.3 per cent FY 1991 over FY 1988. However, we further note that the FY 1991 claims frequency increased only 1.3 per cent over FY 1989 and only .2 per cent over FY 1990. This appears to indicate that even before the tripling of carrier liability subsequent to the study period, before the implementation of MTMC's TQAP program and industry's High Risk Item Protection Program, the increase in carrier claim frequency had virtually levelled off.

The figures relied upon in the draft report relating to the average amount of claims incurred per hundred-weight are as follows:

FY 1988	\$6.22
FY 1989	\$6.39
FY 1990	\$6.65
FY 1991	\$6.26

Although the period studied by GAO reflects a four-cent increase in FY 1991 compared with FY 1988, it reflects a reduction in the average claim amount of 13 cents FY 1991 versus FY 1988 and a reduction of thirty-nine cents FY 1991 versus FY 1990.

If the claims frequency and the average amount of the claims has at least levelled off during the assumption of carrier liability at the old 60 cent rate, it is not unreasonable to infer that the tripling of the carrier liability to \$1.80 would result in a reduction in the frequency and average amount of carrier claims, assuming that the loss or damage incurred was in fact preventable by action of the carrier. Only an analysis of the cause of the damage can determine that. Most important, if GAO declines to draw the inference that the tripling of carrier liability would provide sufficient carrier incentive to reduce the frequency and the average amount of the claims, a substantial

- 5 -

question is raised to warrant resolution of this fact by statistical data which could be made available to the GAO for its consideration.

Further, we question whether the figures depicted in the GAO draft report for the average claim amount were properly adjusted for inflation. See our discussion in Section IV. 1, *infra*.

3. GAO's Assumption that the \$1.25
Carrier Liability Would Reduce
Claim Costs is Unsupported.

The conclusion in the draft report flows from the following statement:

"Adoption of the \$1.25 rate for DOD international shipments would probably cause claims costs for these shipments to decline in much the same fashion as did domestic shipments." (Report, p.37).

This conclusion is based upon two assumptions: first, that the movement of international household goods shipments is similar to that of domestic household goods shipments; and second, that the change in carrier liability in the domestic and international programs was the same. Close scrutiny indicates that neither of these two assumptions is correct. First, the risks associated with international household goods shipments are substantially different than those for domestic shipments. International shipments are usually in transit for much longer periods of time, are handled by a greater number of individual parties and are subject to more loading, unloading, and other movement in transit (such as ship roll) than domestic shipments. Further, other factors, such as limited control over underlying ocean and air carriers and destination agents, foreign laws and customs, varying currency exchange rates, etc., all result in carriers having much less direct control over loss and damage incurred in connection with international shipments. Recognition of these differences underscores the impropriety of applying domestic experience to international shipments.

Second, the level of carrier liability considered in the

- 6 -

domestic study was 60 cent carrier liability versus \$1.25 per pound per shipment, whereas the question which requires resolution for international shipments is whether claims costs would decline were the present \$1.80 carrier liability to be changed to \$1.25 per pound per shipment. Even were we to assume, arguendo, that the experience in the domestic program in going from 60 cents to \$1.25 in carrier liability is relevant to international shipments, it certainly is not relevant to a determination of whether an increase from \$1.80 to \$1.25 in the international program would cause claims costs to decline.

As stated above, the only way in which this question can reasonably be answered is by the accumulation and evaluation of statistics reflecting actual experience incurred in connection with the \$1.80 per pound per article standard of liability. A change of this drastic nature, which admittedly is disruptive of the entire industry, should be based on fact, rather than on inference or supposition.

4. GAO has Failed to Determine that
the \$ 1.25 Rate Level Will Result
in Cost Savings to the Government.

GAO frankly admits that it cannot make this determination but concludes that such costs "are likely to decline", basing this conclusion on experience in the domestic program. (Report, p.38)

There is no reason to substitute supposition and speculation for fact, especially when the conjecture is based upon experience in the domestic program which cannot serve as a reasonable predictor of the impact of the \$1.25 liability on the international program.

In order to determine whether there will be any cost savings to the government from the imposition of the \$1.25 liability, it is first necessary to determine what the government will recover from carriers and second, the extent to which the admittedly added cost of this increased liability will be passed on by carriers in the form of increased bid rates. Second, GAO

- 7 -

recognizes that the government's transportation costs may go up, offsetting any perceived benefit from the transfer of liability.

It is clear that the two most important cost components which affect increases or decreases in the transportation rate level, in addition to carrier liability, are steamship costs and fluctuation in foreign currency. These factors, of course, do not exist in connection with the domestic program and their very absence underscores the unreliability and illogic of using domestic experience as a predictor of the impact of the \$1.25 liability on the international program. Further, it is not beyond the capability of the GAO to isolate the impact of changes in ocean rates and in fluctuations in foreign currency, thereby permitting a determination of whether the government would pay additional transportation costs as a direct result of the increase in international carrier liability. This evaluation should be made before imposing the \$1.25 liability level on carriers.

III. WE AGREE WITH GAO'S CONCLUSION THAT
IMPOSITION OF THE \$1.25 CARRIER
LIABILITY THAT IMPOSITION OF THE
\$1.25 CARRIER LIABILITY RATE ON
INTERNATIONAL SHIPMENTS WOULD BE
DISRUPTIVE AND ACCORDINGLY WOULD BE
COUNTERPRODUCTIVE.

In an attempt to moderate the recognized disruption of the international movement of military household goods which would result from the ratcheting-up of carrier liability to the \$1.25 level, GAO has suggested that a compensatory offset of \$2.04 per \$100 valuation be paid to the carriers. This will not cure the problem. This change to the \$1.25 level will significantly increase the risk of carriers going out of business, with shipments being stranded at points throughout the world and obvious resultant harm to service members.

In its draft report, GAO recognizes that the imposition of the \$1.25 liability on international carriers would expose the government to substantial additional risk. It then suggests that

- 8 -

this problem can be cured by raising the levels of cargo insurance and of the performance bond presently required by MTMC for participation in the international program. That does not cure the problem. First, as found by GAO in its draft report, MTMC's efforts to recoup monies lost by carriers going out of business have been far from successful. (Report, p.53.) One cannot reasonably conclude that these costs will be recovered in the future because of a pious hope that the Military would be able to do a better job in the future than they have done in the past. Second, costs, other than the recoupment of loss and damage claims, resulting from a carrier's demise and accompanied by the stranding of shipments all over the world, have not been considered. For example, if a carrier goes down, shipments are held beyond their required delivery date awaiting the selection of a substitute carrier, and additional funds for subsistence and housing are necessarily required. Further, the administrative expenses and other problems incurred in such an event have been ignored. Lastly, and most important, when a carrier goes out of business, the fact that the government is protected for loss and damage claims in no way helps the service member whose household goods have been substantially delayed. GAO recognizes in its draft report that DOD officials stated "...that reducing damage to household goods shipments was important because it affects service member morale, quality of life, and retention rates." (Report, p.33). We simply ask, in light of the GAO finding that the change to the \$1.25 carrier liability will expose the government to significant additional risk through increasing the possibility of carriers going out of the program and stranding shipments, how will the government's recoupment of loss and damage claims overcome the damage to the service member's morale and quality of life? Claims recovery by the government will not in any way avoid the delay to the service member's shipment, or the discomfort of the service member and his family having to live in temporary quarters without their possessions.

- 9 -

Another predictable result of adopting the \$1.25 valuation flows from the structure of the international household goods program. This program, unlike the domestic program, contains substantial incentive traffic set asides for the low bidder, which, as GAO finds, makes the international procurement very competitive, with many carriers bidding for a limited amount of traffic. (Report, p.54).

A finding is made in the GAO draft report (p.43) that a shipment additive of \$2.04 per \$100 valuation is required to be paid carriers in the international program in order for 28 percent of the principal forwarder participants in the international program to be able to assume the \$1.25 liability on a compensatory basis. Stated another way, even with the \$2.04 additive, 72 percent of the studied carriers would be required to provide this additional liability on a non-compensatory basis. GAO has apparently made no study of the impact of imposing \$1.25 liability on the remaining 106 carriers which presently participate in the international household goods program. Furthermore, the implicit conclusion of the GAO report is that only 14 carriers (28 percent of the 50-carrier study group) are able to furnish the \$1.25 liability on a compensatory basis, assuming the government pays the \$2.04 additive, and that number of carriers will result in sufficient competition for the MTMC international household goods program. The only other inference to be drawn is that all other carrier participants should continue to compete on a non-compensatory basis by absorbing the cost of providing this additional service in their bids.

If it is determined that reliance should be made solely on the "compensatory" carriers, there are only 14 such carriers at a maximum. On the other hand, the 14 "compensatory" carriers have never been identified by GAO in its draft report but we are certain that a number of those carriers are no longer participants in the program and as a result are not available for the submission of competitive bids. A primary carrier in this group is American Ensign which handled a significant portion of

- 10 -

the Military's shipments. This carrier is presently in bankruptcy. If there are other carriers contained in the GAO study group which similarly are now non-participants in the program, it is only reasonable that they should be identified so that there will be no false reliance on the ability of those carriers to provide the \$1.25 carrier liability on a compensatory basis.

On the other hand, to the extent that carriers are faced with the Hobson choice of absorbing the additional cost of providing the \$1.25 liability, or being unable to participate in the traffic, it is predictable that some carriers will attempt to provide this additional requirement on a non-compensatory basis in order to remain in business. (Report, p.43). The result of this is again predictable. GAO, in its draft report, recognizes that the transfer of the additional liability to carriers will exacerbate the recognized problem of potential carrier failures and resultant shipment stranding, as discussed above. (Report, p.54). Also, as stated above, the "band-aid" relief suggested to protect the government against the impact of this exposure ^{1/} is insufficient, and more importantly, does not protect the service member, the person most directly affected by loss or damage to his or her shipment.

Lastly, there is no assurance that the additive payment GAO determined to be necessary to permit the assumption of the \$1.25 carrier liability on a compensatory basis, and to avoid disruption of the international household goods industry, will in fact avoid the feared disruption. It is inevitable that carriers which are irresponsible and do not include a sufficient reserve to cover loss and damage claims at the \$1.25 level in their bid rates will be in a favored position over those carriers who "play it straight" and include an adequate claim reserve in their rates. The temptation for an undisciplined carrier not to include a sufficient reserve in its bid rate is enhanced by the fact that claims do not have to be filed for a two-year period and, as a

1. Increase in the amount of cargo insurance and the MTMC performance bond. See discussion below.

- 11 -

result, claims do not constitute immediate costs but are deferable costs which may or may not be incurred. (Report, p.54). As a result, the imposition of the \$1.25 liability "could stand the procurement on its head" by placing a major share of the DOD traffic in the hands of the least reliable carriers. This problem is aggravated by the fact, recognized by GAO, that bidders in the international program have no claims experience with the liability on the basis of \$1.25 per pound per shipment. ^{2/} (Report, pp.39-40). For this reason, even reliable carriers are faced with the option of inadvertently, through lack of experience at the \$1.25 liability level, either overstating or understating the amount needed as a proper claim reserve. Looking at it from this vantage point, the transfer of carrier liability creates a "little Red Riding Hood" situation in that carriers are faced with the option of inadvertently, through lack of experience at the \$1.25 liability level, either overstating or understating the amount needed as a proper claims reserve. The porridge "cannot be too hot or too cold - it must be just right."

On the other hand, carriers have experience with the present increased liability of \$1.80 per pound per article. They volunteered to increase the applicable liability three-fold to the present level and have done so pending determination, on the basis of statistical experience data, as to whether this increase is in the government's best interest, or whether the liability should be downscaled to \$.60 per pound per article, which was the liability in effect prior to the industry's proposal adopted by MTMC in October 1993. No one will know the answer to that question until the statistical experience incurred has been evaluated, presumably by the GAO. ^{3/}

2. "Adequate claims data to evaluate the impact of increased [\$1.25] liability on international shipments should be available within 2 to 3 years from the implementation data." (Report, p.40).

- 12 -

IV. THE GAO REPORT IS FLAWED BY A FAILURE
TO CONSIDER THE IMPACT ON CARRIERS
ELIMINATION OF THE SHIPMENT CHARGE.

In reaching its recommendation, the GAO makes two separate and distinct findings: (1) that a statistical analysis of experience with the \$1.25 per pound per shipment liability warrants its continuance; and (2) that the shipment charge established in 1987 by the GAO, as consideration for the carriers' assumption of that increased liability, should be discontinued. The HHGFAA submits that, although the benefits of the \$1.25 carrier liability appear to be overstated, through the application of an overly favorable CPI conversion factor the GAO has statistically supported a continuation of the \$1.25 level of carrier liability.

1. The HHGFAA Does Not Oppose Retention
of the \$1.25 Liability Level in the
Domestic Program.

In advocating the \$1.25 liability, the GAO considers as the measuring standards claims frequency and the average claim amount paid. In comparing the experience under the \$.60 per pound per article liability with the \$1.25 per pound per shipment liability, the GAO finds that there has been no decrease in the frequency of claims. (Report, p. 29). This experience establishes that frequency of claims is not a function of

3. We recognize that the initial congressional request for this report asked for a comparison of the \$.60 per pound per article with the \$1.25 per pound per shipment evaluation; however the \$1.80 per pound per article carrier liability was not in existence at that time, it having been made effective on October 1, 1993. This does not undercut the need to evaluate the results of the increased carrier liability in effect since October 1, 1993 before overriding the method of carrier liability followed in the international program for 35 years and substituting a new method which requires subsidization by the government at least for a three-year period, and can result in the disruption of service, as recognized in the GAO draft report.

- 13 -

carrier liability. Carriers therefore do not require the incentive of increased carrier liability to use their best efforts to avoid claims. The lack of change in claims frequency supports a conclusion that carriers use their best efforts at claim avoidance and that regardless of incentive, a given claims frequency is inherent in the moving process, with claims resulting from circumstances beyond the reasonable control of the carrier.

Although the GAO finds a moderate decrease in the average claims amount paid, this conclusion is based on the use of the CPI as a factor to convert claims payments to constant dollars. We submit that the use of the CPI for that purpose is improper because it includes a number of cost components which are inapplicable to household goods repair and replacement and which have a volatile pricing history, e.g., food, fuel, etc. In any event, the increase in the average claim amount found by GAO is not so significant as to warrant any action beyond continuation of the \$1.25 carrier liability accompanied by a compensatory shipment charge. Further, GAO recognizes that claims payments are higher than would otherwise be the case as a result of the Military's direct claims settlement which again GAO recognizes as including "quality of life" payments to encourage personnel retention and reenlistment and to keep up the morale of our armed forces. (Report, p. 33).

The HHGFAA wants to make very clear that it does not oppose such payments but is of the firm belief that they should be segregated to achieve some degree of accountability. In any event, such payments should not be used to determine the liability to be imposed on carriers for loss and damage. Clearly more liberalized "quality of life" payments by the military services could well account for the rather minimal increase in the average claims amount relied upon by GAO for its action.

Nevertheless, the HHGFAA does not take issue with the GAO recommendation that the \$1.25 level of carrier liability be continued in the domestic personal property program.

- 14 -

2. The Compensatory Shipment Charge
Should be Continued.

GAO recognized that the shipment or valuation charge was paid to the carriers in consideration for their assuming the burden of the increase in liability to the \$1.25 basis. (Report, p.13). This additive was set at a level which would permit the better-performing major participants in the domestic program to provide this additional service on a compensatory basis. There was never any discussion or understanding reached, as inferred by the GAO, that the shipment charge was to be a temporary one, to be eliminated after carriers had obtained experience under the \$1.25 level of liability.

Despite the substantial significance and impact on all carriers participating in this program, the only statement which we have been able to find in the entire 63-page draft report which expresses any basis for the elimination of the shipment charge is the following:

"Carriers have had 7 years of claims cost experience under increased liability, and therefore should now be able to compensate for the loss of the separate charge by adjusting their transportation rates."
(Report, pp. 30-31).

The first question we would like to have answered is if the carriers "adjust" their rates by increasing them to reflect the absence of the shipment charge, how will that save the government any money? On the other hand, if carriers are not able to offset the loss of revenues resulting from the elimination of the shipment charge by "adjusting (sic) increasing" their transportation rates, the very basis advanced by GAO for elimination of the shipment charge disappears.

The only rationalization we have been able to discern is that underlying the GAO recommendation is the unexpressed inference or assumption that carriers' bid rates are presently at levels high enough to permit the continued furnishing of the \$1.25 liability without the compensatory shipment charge which,

- 15 -

up to this time, was admittedly required. If that is the rationale of GAO's recommendation, GAO should have made an analysis of present carrier rate levels and based its conclusion upon fact, rather than upon inference and supposition. Absent this study, we cannot understand the logic and fairness of GAO's conclusion that the \$1.25 liability burden should remain with the carriers but that the compensation previously granted for assuming this burden should be eliminated.

Further, we point out that the fact that "carriers have had 7 years of claims cost experience under [the \$1.25] increased liability" does not permit them to increase their transportation rates to reflect the cost of this increased liability. Unlike the international program, carriers in the domestic program have had many years of experience in extending to shippers coverage on the \$1.25 per pound per shipment basis. The carriers had this experience in 1987 and for many years before that time. In fact, as found by GAO in its report (p.14), the \$.64 valuation charge was based upon the \$.50 per \$100 valuation charge for \$1.25 liability contained in the carriers' I.C.C. Released Rates Orders, which applied not only to all commercial shipments but to household goods shipments of government civilian agencies as well.

To make certain that the Department of Defense has a reliable nucleus of competitive carriers which can provide the \$1.25 liability on a compensatory basis, the GAO should analyze the claims experience of the principal carriers, in the same manner as it did in 1987 and establish the shipment charge at a level which will assure it that properly operating carriers can continue to assume that carrier liability on a compensatory basis. That was the methodology employed in establishing the shipment charge level in 1987 and the same methodology should be applied today.

In summary, we do not take issue with the continuation of the \$1.25 carrier liability in the domestic program. We submit, however, that GAO'S suggestion that the separate charge can be

- 16 -

eliminated because carriers can include the cost of this liability in their competitively bid transportation rates is unsupported by any experience in the domestic program.

3. As an Alternative, Commercial Practice
Should Govern Claims Settlements.

To apply commercial practice to the settlement of military claims, the, following is required:

- (1) Carriers would have the option of settling the claim directly with the service member;
- (2) The charge for the \$1.25 per \$100 valuation would be \$.70 per \$100 valuation; and
- (3) Claims would be filed within nine months of delivery of the shipment.

Initially, most people would agree that industry practice should be followed rather than have a government agency, especially one whose function is military in nature, impose its own regulatory deviation from consistent commercial practice. Further, and most important, adopting this alternate proposal will save substantial government funds by permitting the elimination of the numerous civilian and military claims officers presently involved in this process. By retaining a limited number of supervisory personnel, the Military can adequately protect the interests of its service members should it determine that a given carrier settlement need be adjusted. Accordingly, we suggest that this alternate approach be given appropriate consideration.

V. GAO'S PROPOSED INCREASE IN THE AMOUNT
OF THE MTMC PERFORMANCE BOND AND CARGO
INSURANCE REQUIREMENTS WILL NOT AVOID
THE DISRUPTION RESULTING FROM THE \$1.25
CARRIER LIABILITY.

A. The MTMC Cargo Insurance Requirements

There is no question but that transferring to the carriers liability to the \$1.25 level will increase the amount of money which the government has at risk. (Report, p.52). Obviously, if the carrier does not have adequate cargo insurance in effect, the

- 17 -

government's ability to recover for loss and damage claims computed at the \$1.25 level would be adversely affected.

MTMC presently requires carriers to present evidence of cargo insurance in the amount of \$10,800 per shipment. This insurance is at a sufficient level to cover the complete destruction of all shipments weighing up to 8,640 pounds. Since the average shipment weight is under 4,000 pounds, and the number of shipments exceeding 8,640 pounds is few, the insurance level presently required covers practically all shipments for total loss or destruction. Further, loss or destruction of an entire shipment is an isolated and rare occurrence. Practically all loss and damage claims involve loss or destruction of a particular item or items contained in the shipment and rarely do the lost or damaged items constitute the larger portion of the shipment weight.

One other factor must be considered. It is not subject to question that insurance premiums go up in cost with increased coverage and therefore it would seem a given that increasing the cargo insurance coverage as a result of the \$1.25 increased carrier liability would result in additional costs which eventually must be paid by the government. The question which must be resolved, therefore, is whether it is desirable for the government to be saddled with this increased cost in the absence of any statistical review and determination that increased cargo insurance coverage is in fact required, either at the proposed \$1.25 per pound per shipment level or at the present \$1.80 per pound per article level.

It is the position of the HHGFAA that the present MTMC cargo insurance requirements are adequate since they cover the carrier's exposure to loss and damage claims at the present \$1.80 level and that situation would not change even were the GAO recommendation on the \$1.25 level to be adopted. In any event, we submit that no change in the carrier cargo insurance level should be implemented until an examination has been made of the easily-available statistical experience to determine whether an increase

- 18 -

in cargo carrier insurance is in fact required to protect the government's ability to recover loss and damage payments from carriers.

B. The Performance Bond

At the outset, we must make an obvious point. The bond required by MTMC is a performance, and not an indemnity bond. It does not cover the payment of loss and damage claims, which is the subject of the GAO Report.

The bond becomes operational only when a carrier to which shipments have been entrusted goes out of business, leaving shipments stranded throughout the world. The performance bond has as its sole purpose and function making the government whole with respect to additional costs incurred in obtaining a substitute carrier or carriers. It does not protect or assist the government in the recovery of the additional loss and damage claims payment for which it would be at risk under the proposed \$1.25 liability.

At best, the requirement to increase the performance bond indicates a recognition, with which we agree, that imposing the \$1.25 liability on carriers will increase the number of carrier bankruptcies. This is recognized in the GAO draft report where it states:

"...Since claims may not be addressed until several years after a shipment is completed, many carriers do not set aside sufficient funding to cover claims, instead expecting to cover these costs out of their cash flow from new shipments." (Report, p.53).

Obviously, when the carrier does not obtain the anticipated traffic, it must bid even lower in an attempt to obtain the cash flow needed to pay loss and damage claims incurred on earlier shipments. This inevitably pushes the carrier into bankruptcy.

It is the HHGFAA's position that this problem of carrier bankruptcy should not be exacerbated by making the carrier the insurer of liability above the \$1.80 per pound per article level.

Further, there has been no showing that the present amount of the performance bond, which is set at a minimum of \$ 100,000 and goes up to several million dollars, based on 2-1/2 per cent of the gross revenue derived from international shipments, is not

- 19 -

adequate to cover the government's re-procurement costs or alternatively, whether any short-fall in recoveries is attributable to a lack of an adequate procedure by MTMC. An in-depth review is required before an intelligent determination can be made. This has not been made by GAO and is beyond the scope of the direction given to it by the requester of the GAO report. HHGFAA has no objection, and will cooperate fully, should such a study be ordered. Again, it is self-evident that an increase in the level of the performance bond will increase the cost to the carriers which is for the eventual account of the government. Whether this increased expense is warranted as a reasonable expenditure of funds by the government is something that only a statistical evaluation of MTMC experience under the present performance bond limits will determine.

Most importantly, the harmful impact upon service members from the predictable increase in carrier bankruptcies resulting from the \$1.25 carrier liability cannot be avoided by any increase in the performance bond level. Shipments will be stranded; shipments will still be delayed; and service members and their families will still incur the hardship of living in temporary quarters without their needed possessions. For these reasons, the HHGFAA takes the position that the recognized disruption resulting from the \$1.25 carrier liability cannot be avoided even assuming the level of cargo insurance and of the performance bond is increased and even if "compensatory" payments to carriers are made in an attempt to offset the cost of providing this additional service.

CONCLUSIONS

Based on the foregoing, we submit:

1. The GAO draft report is incomplete since it fails to consider experience under the present carrier liability level of \$1.80 per pound per article.
2. It is illogical to change to a different basis from which the international carrier industry has operated under DOD procurement for 35 years, absent any review of experience under

- 20 -

the carrier liability which has been in effect since October 1, 1993. The need for such a study before making the proposed change is underscored by GAO's recognition of the disruption which imposing the \$1.25 carrier liability level on carriers will cause.

3. The proposed payments to carriers to offset the \$1.25 liability, by admission, will permit only a maximum of 14 carriers to provide the \$1.25 liability on a compensatory basis. This means that the remainder of the 156 participating carriers, in order to remain competitive, will be required to provide this service on a non-compensatory basis. There is no basis to conclude that MTMC can reasonably rely on carriers providing service under this or any other procurement on a non-compensatory basis.

4. The payment of offsetting funds, suggested by GAO as a means of avoiding the disruption caused by the \$1.25 liability level, will not avoid the harm to the service member since carriers are not required to fund this additional carrier liability. On the other hand, a transfer of this liability from the government, acting as a self-insurer, to the carrier, exacerbates the situation since those carriers that ignore the need to include an adequate claims reserve in their rates will capture the substantial share of MTMC traffic.

5. The GAO's recommendation that the performance bond and the cargo insurance amounts be increased is not based upon any study of actual experience and therefore is not supportable. It appears primarily to be an effort to attempt to moderate the adverse fall-out of the \$1.25 liability. Further, the present cargo insurance appears to be sufficient, while an increase in the performance bond will not result in reducing the government's exposure to non-recovery of claims from carriers. Nor will either proposal avoid the harm to the service member occasioned by the imposition of the \$1.25 liability level and its recognized disruption of the industry participating in the international military personal property program.

- 21 -

6. We agree with GAO's recommendation that the time period allowed for filing claims for loss and damage should be shortened from the present 2-year period. (Report, p. 55). Although GAO recommends a 1-year period, it recognizes that claims on commercial shipments must be filed within 9 months. The HHGFAA is of the opinion that military and commercial shipments should be treated alike and that the period should therefore be shortened to 9 months.

REQUESTED ACTION

A. International Program

1. Make no change in the present carrier liability level until 3 years of experience data has been collected and based on this data, it has been determined that a change from the \$1.80 per pound per article is required to:

- (a) Reduce the frequency of claims;
- (b) Reduce the average amount of the claim;
- (c) Further increase the recovery of monies from the carrier; and
- (d) Determine whether the government's net program costs will decrease under the proposed \$1.25 liability level.

GAO recognized (Report, p.44) that carrier liability on international shipments was increased to the \$1.80 level "pending completion of GAO's review" and that it "could not evaluate the impact of the \$1.80 rate because insufficient time has passed to accumulate adequate shipment and claims data for such an analysis." Logic supports the deferral of a further increase in carrier liability until the impact of that change can be evaluated on the basis of empirical data customarily relied upon in making a change of this magnitude. This is especially true since the GAO recommendation changes the basis of carrier liability from the per pound per article released valuation which has been in effect since the inception of the international household goods program in 1960.

2. The proposed \$1.25 liability would impose full liability for loss and damage upon carriers, except when the entire shipment has been lost or destroyed. Before implementing this extreme departure from obtaining low rates based upon the carrier

- 22 -

assuming less than full liability, carriers should be granted the option to settle claims directly with the property owner as is the consistent practice followed by commercial shipments. This will not only permit carriers to control claims costs by "quality of life" settlements, which should not be a burden on the carriers, but will make available significant savings to the government by reducing or eliminating the military and civilian claims adjusters presently performing this commercial function.

3. Evaluate MTMC's experience under the present MTMC cargo insurance level to determine whether an increase is required and is in the government's best interest.

4. Evaluate MTMC's experience under the present level of the performance bond to determine whether an increase is required to permit adequate recovery of re-procurement costs or whether any short-fall, if it exists, results from shortcomings in MTMC's recovery procedures.

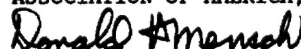
B. Domestic Program

1. Retain the separate shipment valuation charge.

2. Develop an appropriate level of this charge by considering the claims experience of the properly-performing carriers which are substantial participants in this program, and set the shipment charge at a level which will permit a significant number of such carriers to compete under the procurement, while providing the \$1.25 liability on a compensatory basis.

3. Alternatively, apply commercial practices to military claims settlements and permit carriers to make claims settlement directly with service members.

Respectfully submitted,
HOUSEHOLD GOODS FORWARDERS
ASSOCIATION OF AMERICA, INC.


Donald H. Mensch
President

Draft of Proposed Statutory Changes

We propose that 31 U.S.C. 3721(g) be modified as follows:

(g) A claim may be allowed under this section only if it is presented in writing within 2 years after it accrues, except that a claim for damage to, or loss of, personal property in a government-arranged or reimbursed commercial shipment or storage accruing after [DATE] may be allowed only if such claim is presented in writing within 1 year after it accrues. However, if a claim under subsection (b) of this section accrues during war or armed conflict in which an armed force of the United States is involved, or is not yet untimely under this subsection at the time a war or an armed conflict begins, and for cause shown, the claim must be presented within 2 years (or, after [DATE], for claims involving damage to, or loss of, personal property in a government-arranged or reimbursed commercial shipment or storage, within 1 year) after the cause no longer exists or after the war or armed conflict ends, whichever is earlier. An armed conflict begins and ends as stated in a concurrent resolution of Congress or a decision of the President.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.	Edward M. Balderson, Assistant Director Waverly E. Sykes, Assistant Director William W. Cawood, Evaluator-in-Charge Christina Quattrociocchi, Evaluator Daniel C. Hoagland, Operations Research Analyst Julia M. Kennon, Computer Specialist
Office of the Chief Economist	Richard S. Krashevski, Senior Economist
Office of the General Counsel	Michael D. Hipple, Senior Attorney